


# SUSTAINABILITY

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

## OUR APPROACH

Our holistic approach to sustainability responds to the challenges that endanger our planet and people. Consequently, sustainability is an integral component of our strategy 'Own the Game' and we have a clear roadmap for 2025 and beyond. It tackles the topics that are most material to our business and our stakeholders, and translates our overall sustainability efforts into tangible goals.  **ADIDAS-**

[GROUP.COM/SUSTAINABILITY](https://group.com/sustainability) ► [SEE STRATEGY](#)

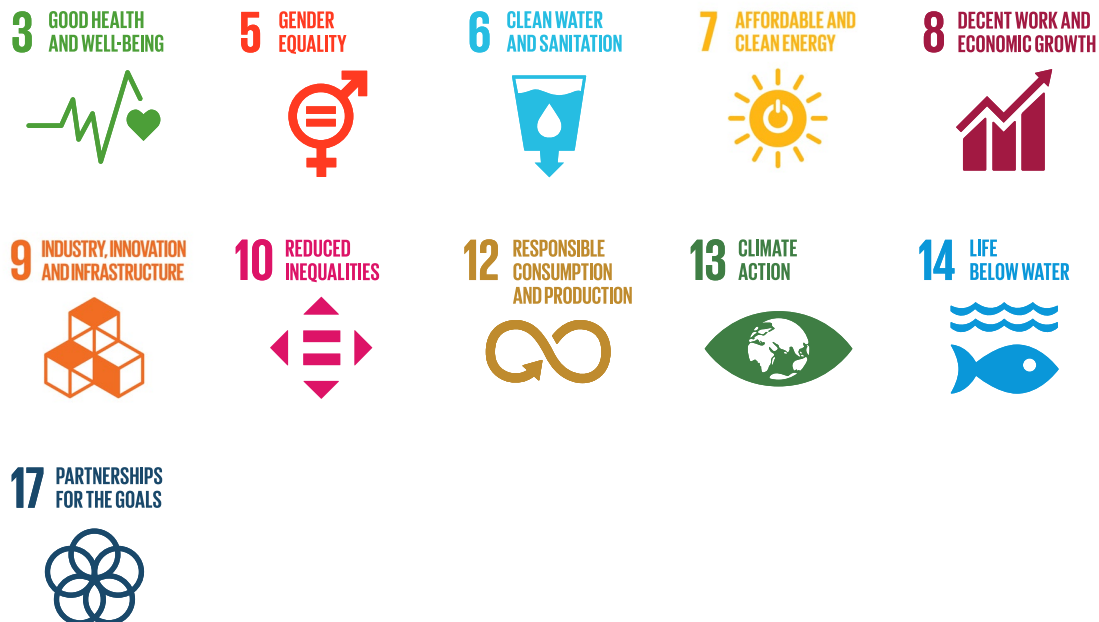
### Material topics

We seek to ensure that we address the topics that are most salient to our business and our stakeholders, and the challenges ahead. To identify these topics, we openly engage with our stakeholders and consider their views and opinions in decisions that shape our day-to-day-operations. In addition, we regularly conduct formal materiality exercises to confirm the selection of our material topics. We use insights gained from past assessments, categorize potential new topics and seek to validate these through in-depth discussions with experts and stakeholders across the entire business. Ultimately, we want to better understand the importance a topic has for our business performance and stakeholders but also gain more visibility about the impact we have on these topics. As a result of this ongoing exercise, tax has emerged as an addition to this list of topics in 2020.

We also make use of external frameworks to help support our selection of material topics. One of these frameworks is the UN Sustainable Development Goals (SDGs) which represents a global call to action to promote prosperity for all while protecting the planet. We see a clear correlation between the SDGs and our own commitment to sustainable development and human rights. Consequently, we have been able to link prioritized SDGs with both the environmental priorities related to the selection of materials, manufacturing, use and disposal of our products, and the needs and concerns of people in the adidas value chain.  ► [SEE NON-FINANCIAL STATEMENT](#)

1 TO OUR SHAREHOLDERS	2 GROUP MANAGEMENT REPORT - OUR COMPANY	3 GROUP MANAGEMENT REPORT - FINANCIAL REVIEW	4 CONSOLIDATED FINANCIAL STATEMENTS	5 ADDITIONAL INFORMATION
--------------------------	---	--	---	-----------------------------

## Correlation between UN Sustainable Development Goals and our sustainability roadmap




## Stakeholder dialogue and transparency

Engaging openly with stakeholders and establishing ways to increase transparency and disclosure has long been central to our approach. Our stakeholders are those people or organizations who affect or are affected by our operations, including our employees, consumers, suppliers and their workers, customers, investors, media, governments, and NGOs. The adidas Stakeholder Relations Guideline specifies key principles for the development of stakeholder relations and details the different forms of stakeholder engagement.



adidas participates in a variety of industry associations, multi-stakeholder organizations, and non-profit initiatives. Through these memberships, we work closely with leading companies from different sectors to develop sustainable business approaches and to debate social and environmental topics on a global and local level. We use collaborations and partnerships to build leverage for systemic change in our industry, such as for strengthening chemical management practices and raising standards in the cotton supply chain. In addition, we build awareness, capacity, and knowledge of laws and rights among factory management and workers by partnering with leading providers such as the International Labour Organization's (ILO) Better Factories Cambodia program, as well as with the United Nation's International Organization for Migration with the objective to ensure that the labor rights of foreign and migrant workers are upheld in the adidas supply chain. ► [ADIDAS-GROUP.COM/S/PARTNERSHIPS](https://www.adidas-group.com/s/partnerships)

**Key memberships:**

- Better Cotton Initiative (BCI)
- Zero Discharge of Hazardous Chemicals (ZDHC) working group
- Fashion Pact
- Leather Working Group (LWG)
- Apparel and Footwear International RSL Management (AFIRM) working group
- World Federation of the Sporting Goods Industry (WFSGI)
- Fair Factories Clearinghouse (FFC)
- Fair Labor Association (FLA)
- German government-led Partnership for Sustainable Textiles ('Textilbündnis')
- The Accord on Fire and Building Safety in Bangladesh
- United Nations Fashion Industry Charter for Climate Action

We believe transparent communication with our stakeholders is critical. For that reason, we regularly disclose information to public-facing social and environmental benchmarks and reporting platforms, and publish important sustainability updates about our work throughout the year on our corporate channels including our corporate website. A key element is the publication of our global supplier factory lists which are updated twice a year. In addition, we disclose the names of the factories of suppliers that process materials for our primary suppliers and subcontractors, where the majority of wet processes are carried out. 

**Governance structure**

 A robust governance structure ensures timely and direct execution of programs that drive the achievement of our set goals for 2020 as well as of our new set of targets for 2025. The head of Sustainability is responsible for the development, coordination and execution of our sustainability strategy and reports to the member of the Executive Board responsible for Global Operations. He or she also leads the sustainability Sponsor Board, which is composed of senior representatives from Global Brands, Global Operations, Digital, Sales, Finance, Corporate Communication, and other relevant functions across the company. The Sponsor Board ensures cross-functional alignment, transparent end-to-end management and execution of agreed-upon sustainability goals within their functions. This includes reviewing and signing-off on policies as required. We also maintain a separate compliance function which is operated as the Social & Environmental Affairs Team (SEA) to evaluate supplier-facing social and environmental compliance performance and human rights impacts, reporting, through the General Counsel, to the CEO. 

## External recognition

adidas continuously receives positive recognition from international institutions, rating agencies, NGOs and socially responsible investment analysts for its sustainability initiatives. In 2020, the company was again represented in high-profile sustainability indices and subject to comprehensive corporate sustainability assessments. ► [SEE OUR SHARE](#)

In the annual assessment of the Carbon Disclosure Project (CDP), adidas was again awarded with a B score for its climate change approach (2019: B), and for its approach to water management (2019: B) and an A- score for its supplier engagement approach related to climate change (assessed through the Supplier Engagement Rating). In the annual Green Supply Chain Corporate Information Transparency Index (CITI), which assesses brands on the environmental management of their supply chains in China, adidas ranked number four in the textile industry with its green supply chain program in China, and achieved first place in the newly added Supply Chain Climate Action Index (SCTI), sharing the position with another company. adidas further maintained its leadership position in the Corporate Human Rights Benchmark (CHRB) evaluation in 2020, coming in first in our industry and fourth overall across all industries assessed. ► [ADIDAS-GROUP.COM/S/RECOGNITION](#)


## OUR PROGRESS

Following our ambition to be transparent toward stakeholders for years, adidas has regularly reported on our sustainability performance by measuring and disclosing the progress made toward our targets. The following presents the list of material topics within our programs and details the progress made and challenges faced. Although 2020 was a difficult year due to the coronavirus pandemic, making it necessary to adhere to local regulations such as store closures and travel bans, we were, overall, able to advance our initiatives and deliver against our targets. ►

## ENVIRONMENTAL IMPACTS

Managing the environmental impacts at our own sites and along the value chain is a key focus of our work. We have developed an approach to address water efficiency and quality and are committed to steadily increasing the use of more sustainable materials in our production, products and stores while driving toward circular business solutions. We are committed to reducing our absolute energy consumption and CO<sub>2</sub> emissions, transitioning to clean energy and looking into energy-harvesting opportunities.

To be able to quantify our environmental impact along the value chain, we developed an internal Environmental Footprint Tool (EFT). This tool uses data from various IT systems and departmental sources to calculate a monetized environmental footprint that accounts for the complete value chain from raw material production to product use and disposal. Currently, the EFT is primarily used for measurement as well as internal and external reporting. As such, it provided key insights for the development process of our new strategy 'Own the Game'. A future objective is to directly interface the adidas systems with the EFT to enable real-time simulations to support business decision-making and further sustainability reporting.

Measuring and optimally managing our environmental footprint in our own operations and across our supply chain is only one way to respond to climate change. In addition, we are proactively addressing the impacts of climate change by supporting global initiatives that aim to drive change for our industry. For example, in the past two years, we signed the Fashion Pact presented at the 2019 G7 Summit and the UN Fashion Industry Charter for Climate Action. In addition, we committed to the Science Based Targets initiative in 2020 and are preparing to have our targets approved. adidas has been a member of the UN Climate Neutral Now Initiative since 2015 and is committed to the continued estimation and reduction of our emissions. It is our goal to reduce emissions across our entire value chain by 30% by 2030 (baseline 2017), thus paving the way for climate neutrality by 2050. 


#### Mitigating climate change: Targets for 2025 and beyond

Target year	Area	Target	Baseline
2025	Own operations	Achievement of carbon neutrality	
	External supply chain		
	Energy	Adoption of renewable energy at strategic Tier 1 and Tier 2 supplier facilities to keep emissions flat	(baseline 2017)
	Chemicals	80% of supplier facilities that manage chemicals in their production process to achieve Level 3 compliance with 'Manufacturing Restricted Substances List' from ZDHC	
	Water	40% reduction in water consumption at Tier 2 supplier facilities	(baseline 2017)
	Wastewater	80% of applicable suppliers that operate on-site effluents plants to achieve 'ZDHC Wastewater Foundational Level'	
	Decarbonization	15% reduction of CO <sub>2</sub> emissions per product	(baseline 2017)
2030	Value chain (from raw material production to own operations)	30% reduction of CO <sub>2</sub> emissions	(baseline 2017)
2050		Achievement of climate neutrality	

#### 2030 goal: Reduction of CO<sub>2</sub> emissions by

# 30%

#### Own operations

 Back in 2008, adidas introduced a program called 'Green Company' to drive continuous improvement and savings in energy, water and waste at its own sites globally. The program covers administrative offices, production facilities and distribution centers, equaling more than 97% of our global employee base in 2020 (excluding own retail). In 2015, we presented targets to be achieved by 2020 that centered around carbon emissions and water use reduction. These were calculated considering a scientific and context-based methodology.

One essential driver to achieve these targets is the implementation of environmental standards at our highest-consuming locations. adidas has successfully applied an Integrated Management System (IMS) which helps us to gain certification for key locations for their environmental management (ISO 14001),

health and safety management (ISO 45001) and energy management (ISO 50001). Building on an overarching corporate IMS policy, adidas aims to further expand these certifications to more key sites every year and have them verified through both external and internal audits. By the end of 2020, 42 sites globally held an ISO 14001 certification, 39 sites held an ISO 45001 certification, and 53 sites held an ISO 50001 certification. Due to the coronavirus pandemic, the IMS implementation, as well as internal and external audits were mostly done remotely for the first time.

In 2020, we were able to cumulatively reduce our combined net emissions by 55% compared to 2015. This is a result of our energy saving initiatives, the use of Energy Attribute Certificates (EACs) at central sites, a company-wide energy monitoring systems, and the installation of photovoltaic systems at various locations. On top we offset the carbon footprint of our gas consumption for all our facilities in Germany. To calculate the overall footprint of all other sites, globally, we take the location-based emission factor provided by the Greenhouse Gas Protocol. In 2020, the lockdown due to the coronavirus pandemic also had a positive impact on the energy and water consumption at our sites. As a result, in 2020 our accumulated water savings amounted to 48% per employee compared to 2008. With these results, we have overachieved our targets of the last strategic cycle.

By 2025, we aim to achieve carbon neutrality for our corporate and own-retail sites through implementing on-site energy production, improving energy use efficiency, sourcing renewable energy, and balancing our emissions through various partnership methods. We will also continue to monitor and improve the water efficiencies at our biggest consuming sites. We will further strengthen our sustainability foundation by increasing the environmental performance data coverage. Furthermore, we will continue to push implementing eco-efficiency standards through the IMS at key sites.

The progress toward all Green Company targets is tracked through an environmental data reporting system and is disclosed in detail in our annual Green Company Report, available on our corporate website as of spring 2021. [ADIDAS-GROUP.COM/S/ENVIRONMENTAL-APPROACH](https://www.adidas-group.com/s/environmental-approach)

#### Own operations: Progress toward 2020 targets

2020 Targets		2020	2019	2018	2017
Emissions	3% absolute annual reduction in CO <sub>2</sub> Scope 1 and Scope 2 net emissions <sup>1</sup> (baseline 2015)	(55%)	(52%)	(24%)	(29%)
Water	35% reduction in water consumption per employee (baseline 2008)	(48%)	(37%)	(31%)	(27%)

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

## Supply chain

As our production is fully outsourced, a substantial portion of our environmental impact occurs, at different intensities, throughout the supply chain. Therefore, for adidas, sourcing is not only about ensuring high product quality and timely delivery, it also means working with our suppliers to ensure they are continuously reducing their environmental footprint by measuring their monthly progress toward yearly reduction targets for energy, water and waste. One way we provide support is to develop comprehensive policies and guidelines such as the newly added 'Rooftop Solar Guideline' and 'Waste Co-processing Due Diligence'.

Already in 2019, we started to support our suppliers in scaling the adoption of on-site renewable energy in our supply chain. adidas funded and provided technical expertise for solar rooftop feasibility studies in key sourcing countries such as Vietnam, Cambodia, China, Indonesia and Myanmar, covering approximately 80% of our strategic suppliers. Even though 2020 was a challenging year due to the pandemic, we were able to intensify our efforts and have already seen the first positive results. In 2020, we confirmed that additional 27 MWp rooftop solar systems had been installed by our strategic suppliers.

We want to ensure that our suppliers are a part of our low-carbon journey and have therefore actively supported our global suppliers by engaging experts, providing hands-on training and developing multiple tools and guidelines over the past years. The 'adidas Environmental Good Practice Guide & Toolkit' covers over 60 efficiency measures and provides good practices for identifying environmental impacts and carbon reduction opportunities within the factory's operations.

Furthermore, adidas is working closely with key suppliers in Vietnam, providing the technical guidance and expertise to enrol and access the first off-site renewable energy pilot. The pilot program features direct power purchase agreement (DPPA) mechanisms between renewable energy developers/power generation companies and private power buyers/consumers. DPPA mechanisms are surging around the world as a new driver and catalyst for renewable energy projects.

We are co-developing an online climate action training program with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) which will be made available to all of the UNFCCC signatory brands and their supply chain. The aim is to upskill the fashion supply chain on greenhouse gas emissions, and how to set targets and identify reduction measures such as adopting renewable energy and improving energy efficiency.

Through our collective measures and technical support, our suppliers were able to exceed our five-year environmental targets on energy, water and waste.

### Supply chain: Progress toward 2020 targets


2020 Targets <sup>1</sup>		2020	2019	2018	2017
Water	20% reduction in water consumption at strategic Tier 1 supplier facilities	(36%)	(29%)	(24%)	(15%)
	35% reduction in water consumption at strategic Tier 2 apparel material supplier facilities	(43%)	(34%)	(27%)	(24%)
Energy	20% reduction in energy consumption at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(23%)	(22%)	(15%)	(7%)
Waste	20% reduction in waste volume at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(30%)	(30%)	(22%)	(10%)

<sup>1</sup> Table shows aggregated reduction results for all categories (apparel, footwear and accessories and gear). Baseline year 2014. Results show externally verified data for the previous year.


As we accelerate our sustainability efforts, we continue to support our supplier partners to improve their performance and ensure that this is underpinned by sound environmental management systems and accurate data disclosure. In 2020, for example, 98% of our footwear sourcing volume was produced in factories that have been certified in accordance with the International Environmental Standards ISO 14001 and/or the Workplace Health and Safety Management Standards OHSAS 18001 (2019: 98%).

In 2021, we will transition to a set of environmental targets that are in line with our public commitment of reducing absolute CO<sub>2</sub> emissions by 30% by 2030 and our broader sustainability strategy. For the supply chain, we will focus on transitioning from energy efficiency to end-to-end carbon management, expanding on Tier 2 water savings, and driving further adoption of ZDHC-qualified chemicals and the delivery of cleaner effluent.

### Supply chain targets for 2025

- **Water:** We have met and exceeded our previous five-year target on water savings for strategic Tier 1 and Tier 2 suppliers. We are expanding our water reduction efforts to include additional Tier 2 suppliers. Through the application of new technologies, our aim is to achieve a 40% reduction in water consumption against the 2017 baseline year by 2025.
- **Chemicals:** Building on our long-standing collaboration with ZDHC, which promotes sustainable chemistry, we aim to have 80% of supplier facilities that manage chemicals in their production process to achieve Level 3 compliance with the Manufacturing Restricted Substances List (MSRL) from ZDHC for their input chemicals by 2025.
- **Wastewater:** Pollution abatement is critically important for the textile industry and a basic compliance expectation. We aim for 80% of applicable suppliers that operate on-site effluents plants to achieve a 'ZDHC Wastewater Foundational Level' (direct discharge) by 2025.
- **Energy:** As part of our 2021 carbon priorities and goals, adidas aims to accelerate initiatives that drive low-carbon manufacturing within its supply chain. That is why, in 2021, we will focus on scaling the adoption of renewable energy at existing Tier 1 and Tier 2 facilities. Through the adoption and scalability of renewable energy and coal replacement, our aim is to keep our emissions flat against the 2017 baseline year by 2025. 

### Chemical management

 Contributing to a better environment and a safer living space, adidas has been building and implementing a leading chemical management program in its supply chain for years. We have defined an end-to-end-approach spanning the management of chemical input, monitoring the chemical management in our supply chain, and reporting supplier performance data publicly to controlling the finished end product. [▶ ADIDAS-GROUP.COM/S/CHEMICAL-FOOTPRINT](https://www.adidas-group.com/s/chemical-footprint)

Driving effective and sustainable solutions, it requires a strong collaboration with different stakeholders, including industry federations and chemical experts. Together with all industry partners, we continued to contribute to the development and updating of both the ZDHC Manufacturing Restricted Substances List (MRSL) and the ZDHC Chemical Management Guidance Framework (CMS). The publication of ZDHC CMS provides a critical link between controlling chemical input and monitoring output. It supports our supply chain chemical management program and helps to avoid hazardous chemicals entering the production processes.

We further improved our chemical input management, recording 83% of auxiliaries volume and 91% of dyestuffs volume from our strategic apparel suppliers as bluesign-approved in 2020. We also continued to be 99% free of poly- and perfluorinated substances (PFCs) in our products for the fall/winter 2021 season.












We believe establishing a sustainable chemical management in our supply chain has a material impact and requires strong competence and skilled personnel retained in production facilities. This year, we partnered with SGS Group to co-develop and roll out the adidas Chemical Management Academy (aCMA) to upskill our business partners on evaluating chemical hazards, and identifying the qualified chemicals to secure the foundation of chemical management systems in the facilities.

Even though 2020 was a challenging year due to the pandemic, our supply chain partners continued to regularly disclose chemical data and accept independent testing of their waste discharges. According to the latest results, the majority of our suppliers' facilities meet national permitting requirements and 52% of the direct discharge facilities meet the ZDHC foundational level, an industry wastewater standard. ▮

### Transportation

We regularly track the environmental impact related to the transport of our goods. Compared to the previous year, performance remained relatively stable. As in previous years, the vast majority of our transportation takes place via sea freight.

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

		2020	2019
<b>Apparel</b>			
Truck		6	8
Sea freight		91	84
Air freight		3	8
<b>Footwear</b>			
Truck		1	1
Sea freight		98	92
Air freight		1	6
<b>Accessoires &amp; Gear</b>			
Truck		19	18
Sea freight		80	80
Air freight		0	2

■ 2020 ■ 2019

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

## Sustainable materials and processes

■ We are committed to steadily increasing the use of more sustainable materials in our production, products and stores. We push toward sustainable innovation and circular business solutions.

Synthetic fibers are widely used in our industry due to their unique performance properties such as elasticity, light weight, and high durability. We are aware that products made out of synthetic fibers can have a negative environmental impact during their use phase and acknowledge microfiber pollution as a complex challenge for our industry – one we are proactively addressing. We have established a cross-functional working group and closely collaborate with our suppliers and research institutes to raise awareness of the issue and drive joint solutions toward a global testing standard. adidas is co-founder of The Microfibre Consortium (TMC), which is operational as of 2019, and among others develops tools to minimize shedding and the release of microfibers into the environment, for example via a testing method that enables us to obtain results about the shedding potential of our materials. ► [ADIDAS-](#)

[GROUP.COM/S/PRODUCT-MATERIALS](https://www.adidas.com/s/product-materials)

## Sustainable cotton

adidas has steadily increased the sourcing of cotton according to the Better Cotton Initiative throughout the last several years and already managed to source 100% sustainable cotton by the end of 2018. In 2020, we continued to source all cotton globally as more sustainable cotton. The Better Cotton Initiative aims to reduce the use of pesticides, promotes efficient water use, crop rotation and fair working conditions, and strives to transform cotton production worldwide by developing Better Cotton as a sustainable mainstream commodity.

### Sourcing of sustainable cotton

# 100%

## Recycled polyester

Using more recycled polyester is yet another way we seek to improve our environmental footprint while still making high-performance products for the athlete. Polyester is the most common single-used material in adidas products and, by 2024, we aim to replace all virgin polyester with recycled polyester in all products where a solution exists. We set clear internal milestones for product creation teams and have seen great progress throughout the last several seasons. In 2020, 71% of all polyester used for our apparel and footwear ranges was already recycled polyester. With that, we are ahead of our plan to use only recycled polyester from 2024 onward. The 'Primeblue' and 'Primegreen' labels, which were introduced in 2020, mark products made with recycled materials. While offering full functionality and durability in sports, they avoid waste and preserve natural resources.

### Share of recycled polyester

# 71%

### Parley Ocean Plastic

Since 2015, adidas has partnered up with the environmental organization Parley for the Oceans and uses Parley Ocean Plastic as an eco-innovative replacement for virgin plastic. We continued to roll out Parley Ocean Plastic across key categories and introduced our own label in 2020 for products that contain a certain amount of Parley Ocean Plastic: Primeblue. In 2020, we produced more than 15 million pairs of shoes containing Parley Ocean Plastic. Our target for 2021 is to produce 17 million pairs of such shoes.

► SEE GLOBAL BRANDS ► [ADIDAS-GROUP.COM/S/SUSTAINABILITY-INNOVATION](https://adidas-group.com/s/sustainability-innovation)

#### Pairs of shoes containing Parley Ocean Plastic

> 15m

### Waste and packaging

We are committed to reducing our plastic footprint globally and are proud of the success we have seen in recent years, such as the phase-out of plastic bags in our own retail stores globally in 2016 and the elimination of single-use plastics across the majority of adidas locations worldwide as of 2018. Where the use of plastics is still unavoidable, for example in transport packaging, adidas is working to find sustainable alternatives. For example, together with the global innovation platform 'Fashion for Good', the company is exploring the development of a recycling infrastructure for used polybags as well as innovative recycling processes for polybags, testing the technical feasibility of polybag circularity. In addition, the company aims to reduce its use of virgin plastic and is well on track to meet its goal to transition to the use of 100% recycled LDPE polybags by 2021.

### Circular business solutions

adidas takes responsibility for the entire life cycle of a product and follows a clear game plan for moving toward a circular business model. Already in 2019, we successfully showcased proof-of-concept products against circular and regenerative loops by presenting our first fully recyclable and biofabricated products. Futurecraft.Looped is our first 100% recyclable performance shoe made entirely from one material (TPU), using no glue or solvent. To continue this journey, in 2020 we launched the Ultraboost DNA Looped as an evolution of the Futurecraft.Looped model and allocated 1,500 pairs to Creators Club members to help us develop the shoe further. The gained insights will help us refine the commercial launch of our first 'made to be remade' products in 2021. In addition, adidas is exploring infrastructure for product take-backs and recycling with partners and governmental bodies. ► SEE GLOBAL BRANDS ► [ADIDAS-GROUP.COM/S/PRODUCT-END-OF-LIFE](https://adidas-group.com/s/product-end-of-life)

### Product safety and integrity

Product safety is an imperative. As a company we have to manage the risk of selling defective products that may result in injury to consumers or impair our image. To mitigate this risk, we have company-wide product safety policies in place that ensure we consistently apply physical and chemical product safety and conformity standards. ► [ADIDAS-GROUP.COM/S/PRODUCT-SAFETY](https://adidas-group.com/s/product-safety)


The creation of respective adidas standards and policies is mostly a collaborative, cross-functional approach involving experts from the corporate Legal and Global Operations departments to ensure all aspects of a specific product are covered. This includes subsequent updates and training activities. Application and monitoring are ensured through our Global Operations function.


One of these policies is the Restricted Substances Policy ('A-01' Policy) that we pioneered in 1998. It covers the strictest applicable local requirements and includes best-practice standards as recommended by consumer organizations. The policy is updated and published internally and externally at least once a year

based on findings in our ongoing dialogue with scientific organizations, and it is mandatory for all business partners. To ensure successful application of the policy across the business, we have established a Product Safety and Compliance workspace that serves as a platform for all employees involved in product creation by providing them with the necessary information and guidance to develop, produce and distribute products according to international regulations and best-practice standards. Both our own quality laboratories and external institutes are used to constantly monitor material samples for compliance with our requirements. Materials that do not meet our standards and specifications are rejected. As a result of our ongoing efforts, we did not record any product recalls in 2020.

Over the last several years, we have substantially contributed to the AFIRM Restricted Substances List, which harmonizes restricted substances lists across the industry. While the uptake of the list as an industry best practice matured further, an assessment approach was initiated in cooperation with international third-party labs in 2020, to evaluate the testing performance and accreditation level of the labs we work with. This approach will ultimately also be made available to other customers of the labs. These are for instance companies from the textile and sporting goods industry and their suppliers. We also continued our participation in several major public stakeholder consultation processes initiated by the European Commission (e.g. European Chemicals Agency) and US state legislative initiatives to inform governmental entities on implications and opportunities of drafted legislation. 

## SOCIAL IMPACTS

 Through economic activities related to our business model, we create value that we need to balance with our environmental impact. However, being a company of our scale and global presence, we also have a social impact on our communities. adidas recognizes its responsibility to respect human rights and the importance of managing the appropriate due diligence to fulfill this obligation as a business. We do this by striving to operate responsibly along the entire value chain, by safeguarding the rights of our own employees and those of the workers who manufacture our products through our Workplace Standards, and by applying our influence to effect change wherever human rights issues are linked to our business activities. [▶ SEE OUR PEOPLE](#)

Another aspect that we consider to be material in this context is our responsibility regarding tax. Through taxes, governments have the monetary ability to pursue their objectives and take on the responsibility of further developing their countries. 

### Human rights

 Since its inception in 1997, our human and labor rights program for our supply chain has been built on the back of intense stakeholder outreach and engagement, seeking to understand and define the most salient issues to address as a company. We continue to support improvements in the ongoing and independent accreditation of our own social compliance program by the Fair Labor Association (FLA). We have also maintained our commitment to the 'Sporting Chance Principles' and our place on the Advisory Council for the Centre for Sports and Human Rights. In 2020 we continued to hold a seat on FIFA's Independent Advisory Board on Human Rights, providing input and recommendations to FIFA on the hosting of the 2022 FIFA World Cup in Qatar.

Over the past year, increased attention has been given to potential forced labor risks linked to China's Xinjiang Uyghur Autonomous Region (XUAR). Several Western governments held hearings targeting business entities operating in the XUAR; the United States even imposed sanctions. Through its Modern Slavery Statement and other public disclosures, adidas shared the actions it has taken to address forced labor in its global supply chain. With respect to Xinjiang, adidas confirmed that it has never manufactured products in that region. As early as spring 2019, the company had already called on all Tier 2 material

suppliers to stop sourcing cotton yarn from the XUAR. Furthermore, adidas supported the Better Cotton Initiative (BCI), which is the primary source of adidas' cotton, in its decision to no longer certify cotton that comes from Xinjiang.

Five years after the launch of the modern slavery outreach program, we have reached an increased understanding of the potential risks associated with modern slavery in our upstream supply chain. In this time, we have engaged extensively on human rights and forced labor industry benchmarks and have identified and filled gaps in our policies and practices, which has led us to secure the highest ratings in those benchmarks. Through 2020, we strengthened engagement with our Tier 2 suppliers, employing foreign migrant workers as part of our Responsible Recruitment partnership with the International Organization for Migration and led joint remediation efforts at shared supplier sites with leading apparel and footwear brands. adidas was part of a twelve-member expert task force on forced labor and Decent Work, set up to provide recommendations to improve the Better Cotton Initiative's effectiveness in identifying, preventing, mitigating, and remediating forced labor risks at the cotton farm level. In a multi-stakeholder initiative from 2019 to 2020, we, along with other international brands, supported the FLA and International Organization for Migration in undertaking a supply chain mapping and labor rights assessment of the natural rubber sector in Vietnam. [ADIDAS-GROUP.COM/S/HUMAN-RIGHTS](https://www.adidas-group.com/s/human-rights)

### Our approach to tax

■ We are committed to being compliant with all tax regulations in all jurisdictions in which we operate. We consider the interests of our stakeholders in the business decisions we make in order to ensure the lasting success of our company.

We do not operate through artificial structures or structure our business in ways that are intended to result in tax avoidance. Where we have a presence in so-called low-tax jurisdictions, this is related to our business activities in those jurisdictions, and is not created for the purpose of minimizing our tax burden. While tax is among the many considerations in making business decisions, it is not the main driver in our decision-making process.

### Tax management and governance

Given the range of activities and locations we operate in, adidas is subject to a wide range of taxes across the world, including corporate income tax; VAT/GST; employee-related taxes, such as payroll and fringe benefit tax; withholding taxes; property taxes; stamp duties and other taxes. The purpose of our tax function is to support and enable business objectives while ensuring compliance and preventing or minimizing tax risks.

The approach to tax is defined by the Vice President Corporate Tax and is reflected in the tax strategy, objectives, policies, and internal controls. Economic and social impacts are considered in developing and executing our tax strategy. The Corporate Tax team reviews our tax strategy on an annual basis, with significant changes being approved by our Chief Financial Officer (CFO). The CFO is ultimately accountable for compliance with our tax strategy.

Pursuant to our tax policies, the local Directors and Management of each legal entity are responsible for ensuring compliance with tax regulations. The local teams are supported by the company's Corporate Tax team and tax advisors. The Corporate Tax team exercises global governance and is accountable for our approach to tax. Its main responsibility is to provide global tax advisory, to identify and manage opportunities and risks and ensure tax compliance worldwide. Through partnering with business functions, the Corporate Tax team aims to understand the needs and perspectives of various stakeholders internally and externally and to support business objectives while ensuring continued compliance with tax regulations. Enquiries from and communication with external stakeholders regarding our tax affairs are managed in accordance with our Global Communication Guidelines.

Our Executive Board is updated on tax matters periodically, including a risk review process every six months that also forms part of our tax governance framework. Our CFO and/or the Executive Board, advised by the Corporate Tax team, is ultimately responsible for decisions on topics such as entering into significant or one-off transactions that may give rise to an increase in tax risk (e.g. mergers and acquisitions).

Our 'Fair Play Code of Conduct' sets out the options available to employees who detect unlawful or unethical behavior, including anonymous notification or whistleblowing procedures. The adidas AG audit includes the audit of disclosures in respect to tax. ► [ADIDAS-GROUP.COM/S/CODE-OF-CONDUCT](https://www.adidas-group.com/s/code-of-conduct)

### Interactions with tax authorities

We seek a cooperative relationship with tax authorities. We respond to information requests, whether formal or informal, and, on a case-by-case basis decide whether to take the initiative in communicating business developments of particular significance to the local tax authorities. During 2020, we were not involved in the public policy regarding tax law or tax law changes in any of the jurisdictions we operate in.

### Tax planning

We ensure that the tax profile of our activities is aligned with the substance of the operating structures of our business. Accordingly, transactions have commercial and economic substance and we do not put in place arrangements that are contrived or artificial. Our 'Transfer Pricing Policy' requires that intragroup transactions be carried out on an arm's-length basis. As a result, our profits are derived and taxed in the jurisdictions where value is created. ▮

## WORKING CONDITIONS IN OUR SUPPLY CHAIN

### ▮ Managing the impact of covid-19

From the very outset, adidas has sought to mitigate the impact of the coronavirus pandemic on the workers in its global supply chain, providing guidance on infectious disease control, occupational safety and workers' welfare. The company continued to uphold its standard manufacturing terms, including worker rights protection, and assisted key suppliers in securing bank financing to help them weather the covid-19 crisis. Ensuring business continuity and a functioning supply chain has kept workers in jobs, with the vast majority of our supplier factories having retained their workforce, albeit with reduced working hours due to lockdowns or suspensions. adidas continued to be committed to ensuring legal compliance in terms of pay and benefits for all workers and tracked the working conditions in each and every factory. Where we have seen factory downsizing, we ensured that laid-off workers received their legal severance and other entitlements in full.


We recognized that these actions alone would not be enough and endorsed the International Labour Organization's (ILO) Call to Action to address the impact of coronavirus pandemic on the garment industry. The ILO convened a global working group, charged with securing funding to ensure business continuity, payment of wages, income support and job retention initiatives sufficient to protect garment workers' income, health, and employment. The effort included a commitment to support the development and expansion of social protection systems for workers and employers in the garment industry, consistent with recommendation ILO 202.

adidas' covid-19 response was assessed by the labor rights advocacy community, which includes the Worker Rights Consortium and duly recognized in Baptist World Aid Australia's '2020 Covid Fashion Report' which surveyed close to 100 brands on their commitment to address the covid-19 crisis in their supply chain. ▮

## Our approach to working conditions in our supply chain

Our commitment to ensuring fair labor practices and safe working conditions in factories throughout our global supply chain is fundamental to our human rights approach. Our active efforts are guided by the adidas Workplace Standards, our supply chain code of conduct. The standards form a contractual obligation under the manufacturing agreements we sign with our suppliers to ensure workers' health and safety and environmentally sound factory operations by following ILO and United Nations conventions relating to human rights and employment practices, as well as the model code of conduct of the World Federation of the Sporting Goods Industry (WFSGI). We also seek to extend our reach by cascading responsibilities to our partners, to capture and address potential and actual risks related to possible labor rights violations upstream and downstream of our product creation. Specific reference to the code provisions of the ILO core labor conventions is provided in the adidas Guidelines on Employment Standards. The Sourcing and Social & Environmental Affairs (SEA) senior management reviews and approves all policies and implementation processes of the labor rights program.


Our social compliance program continues to evolve, and is built around three core concepts:

- **Performance:** In 2021, we will transition from our compliance benchmark (C-KPI), which is focused on management systems and supplier self-governance, to a new set of social indicators (S-KPI) that measure outcomes such as reduced accident rates, higher retention levels, or improved worker satisfaction. Through our new S-KPI tool, we will report annually on workplace conditions, including the effectiveness of our worker empowerment initiatives. The targets for 2025 will be defined in 2021.
- **Transparency:** As part of our broader risk management processes, we will increase the scope and application of Human Rights Due Diligence (HRDD) efforts. Our 2025 ambition is to achieve a 100% coverage of all 'at risk' activities, ensuring HRDD compliance is embedded across the organization. 'At risk' activities are those activities identified in our annual human rights risk mapping and flagged as having potential adverse human rights impacts that require prevention or mitigation.
- **Fairness:** The focus lies on gender equality, pay equity and responsible sourcing practices that support fair compensation for workers. Our ambition is to see progressive improvement across all fair compensation benchmarks and achieve gender wage parity for workers and their supervisors in each of our strategic Tier 1 suppliers by 2025. 

## Factory performance

We regularly assess factories on their ability to provide fair, healthy and environmentally sound workplace conditions by conducting announced and unannounced audits through our own team and accredited external auditors. We use a KPI rating system for social compliance (C-KPI) and attach scores between '1' and '5', with '1' being the worst and '5' being the best. According to the results, our sourcing and SEA teams jointly decide the course of action, ranging from trainings to enforcement actions, such as sending warning letters or hiring external consultants to help improve their program.

Any cases of non-compliance identified during audits are given a certain time frame for remediation. Potential new factories are assessed in a similar way and orders can only be placed if approval by the SEA team has been granted. We operate several grievance channels allowing workers or third parties to submit complaints about violations of the Workplace Standards and human rights generally. All third-party complaints are reviewed and investigated, and the outcome is reported on our corporate website. Factory conditions are also inspected by independent auditors through our participation in the Fair Labor Association (FLA), which we joined as a founding member in 1999, demonstrating our commitment to independent and unannounced factory inspections and external verification of our programs. Since then, our program has been accredited three times by the FLA.

At the end of 2020, adidas worked with 520 independent supplier facilities<sup>116</sup> (2019: 631) that manufacture products for our company in 49 countries (2019: 52). The decrease is due to our overall ambition to further consolidate our supply chain, mostly in South Korea in 2020. Our intention is to work with fewer factories, forming long-term partnerships and provide them with more orders. 66% of our suppliers' factories (2019: 69%) are located in the Asia-Pacific region. The number of licensees we worked with declined slightly compared to 2019, with 56 licensees (2019: 62) that manufactured products in 375 factories (2019: 372) across 37 countries (2019: 38). 

### Onboarding


 In 2020, our primary focus has been on maintaining partnerships with our existing suppliers rather than onboarding new ones. We conducted initial assessments, the first approval stage for a new entry into our supply chain or, in the case of existing sites, where there is the construction of new facilities, in 112 factories (2019: 143). Of these, 31 factories (2019: 49 factories) were either rejected directly after the initial assessment identified zero-tolerance issues, or were 'rejected with a second visit' due to identification of one or more threshold issues, which means they were rejected but given the chance to remediate the non-compliance issues within a specific timeframe. The vast majority (94%) of all initial assessments were undertaken in Asia (2019: 84%), with China accounting for 50% (2019: 38%).

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


	2020	2019
Total number of first-time rejections <sup>1</sup>	31	49
First-time rejection rate	28%	34%
Total number of final rejections <sup>2</sup>	2	6
Final rejection rate	2%	4%

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

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

Overall, at the end of 2020, the 'first-time rejection rate' of 28% of all new factories visited was slightly lower than in the previous year (2019: 34%). Onboarding fewer factories, and providing focused support to those we have onboarded, has aided us in also lowering the 'final rejection rate', to below 2% in 2020. The remediation of factory issues is beneficial for workers as it raises the bar in terms of better and timelier pay, improved benefits, reduced hours, and the legal protection of formal employment contracts, and it results in significant improvements in basic health and safety within the workplace. Suppliers that have threshold issues are normally given three months to remediate those issues before being re-audited for final acceptance. 

### Worker engagement and empowerment

 Since 2017 we have reduced our reliance on local worker hotlines as a complaint mechanism, by building an application-based 'Workers Voice' platform: a bespoke, factory-based digital grievance channel for workers. We have progressively improved and expanded the use of this operational grievance mechanism and in 2020 almost 450,000 workers employed in 111 factories across twelve countries had access to this system. Due to the covid-19 pandemic, two strategic suppliers had to postpone the implementation of the platform, which is why we missed our 2020 target of having the 'Workers Voice' platform implemented at 100% of our strategic suppliers.

<sup>116</sup> Independent supplier facilities refer to individual Tier 1 facilities (factories) of our manufacturing partners (suppliers) that adidas has a manufacturing agreement with, and their Tier 1 subcontractor facilities, excluding own factories and licensee facilities. Facilities that work with our licensees are reported separately. Some of these facilities may produce both for adidas directly and for licensees.



A robust grievance mechanism is the fulcrum on which workers can raise their concerns and secure remedies. Access to a digital complaint mechanism proved invaluable during covid-19, with a 128% increase in worker grievances being reported. Close to 46,000 human and labor rights complaints were filed in 2020. The top three types of complaints were related to concerns over benefits, general facilities and communication. 98% of these complaints were successfully resolved by the factory management.

Responses received through the 'Workers Voice' platform are carefully tracked by adidas, using KPIs and dashboard reviews, case satisfaction ratings and on-site worker interviews. This allows us to evaluate the efficacy of the grievance channels, see major cases in real time and undertake timely interventions, where necessary. It also helps us understand the main challenges and labor rights issues in a factory and track how the factory management and their HR teams resolve cases and communicate their findings. Our evaluation contributes to the factory's overall social compliance score. adidas provides ongoing capacity building to enhance the factory teams' capability to improve the effectiveness of the grievance mechanism. It is notable that the case satisfaction rate, which allows workers to input their level of satisfaction with the resolution of complaints, has risen steadily from 39% in 2019 to 58% in 2020.

#### Grievance application

2020 Target	2020	2019	2018
Implementation of 'Workers' Voice' grievance platform at strategic suppliers: 100%	98%	98%	97%


Complementing the various grievance channels, we rolled out the 'Worker Pulse' project in 2020, a digitalized short survey to capture workers' perception and awareness of their labor rights on focused areas such as communication, harassment and abuse and grievance systems. We undertook these digital surveys in 63 factories across nine countries, with more than 22,000 workers voluntarily participating. The survey was conveyed to the workers through a mobile-phone-based application.

Of the participating workers, 78.6% reported their willingness to recommend their workplaces to their friends and relatives as a favorable place to work, and 77% believed that complaints raised through the grievance mechanisms are taken seriously by factory management. Factories are required to develop and track workplace improvement plans, based on the feedback received from the 'Worker Pulse'.


The 'Worker Pulse' builds on our existing Worker Satisfaction Survey (WSS) process, which was first launched in 2016. WSS is a comprehensive survey consisting of around 60 questions that helps suppliers gain insights into the workplace environment, from both a worker's and a supervisor's perspective, and target those areas requiring improvement. For example, workers are asked for their feedback on the effectiveness and performance of their factory grievance mechanisms, which in turn helps inform ways to improve and further refine those systems.

Alongside factory-led training, we have also offered tailored training under our Women Leadership Program (WLP), first launched in 2016. As of the end of 2019, more than 1,300 workers had participated in this program. The WLP provides training and skill-sharing sessions, managed through a Women Supervisor Forum (WSF): a platform for female supervisors to upgrade their knowledge, learn best practices, and gain support, information and guidance on a range of topics to improve their abilities as a supervisor. With the arrival of the global pandemic, opportunities for face-to-face training in the factories were severely constrained. As a result, only 195 supervisors were able to take part in the WLP skills training program in 2020, and the expanded rollout of the WSF had to be paused.

1	2	3	4	5
TO OUR SHAREHOLDERS	GROUP MANAGEMENT REPORT - OUR COMPANY	GROUP MANAGEMENT REPORT - FINANCIAL REVIEW	CONSOLIDATED FINANCIAL STATEMENTS	ADDITIONAL INFORMATION

2020 also saw the successful launch of our mobile-phone-based 'Digital Training' project, which was successfully rolled out in 43 factories across Cambodia, China, Indonesia, and Vietnam. The digital tool assesses workers' awareness of their labor rights and remedies, e.g. harassment and abuse, fire safety and use of grievance channels. Of the 11,000 workers who took part in 2020, 83% secured a 75% pass rate in the post-test questions. 

### Factory engagements and training sessions

 In 2020, just as our ability to conduct onsite audits was restricted by the pandemic, so was our capacity to engage in onsite visits and training sessions at our suppliers. We addressed this by increasing our levels of remote, or virtual engagements throughout the year, increasing from 426 individual factory engagements in 2019, to 644 in 2020. In addition to our continuous tracking of covid-19 impacts on suppliers' operations, these engagements covered monitoring of remediation activity, KPI improvement plans, grievance investigations and worker satisfaction surveys, as well as our regular supplier training programs, where it was practical to do so. Nevertheless, some of our programs could not continue at the same levels, in the absence of face-to-face training workshops. In total, through our fundamental, performance, and sustainability training sessions, we conducted 61 training sessions and workshops for suppliers, licensees, workers and adidas employees (2019: 123). Where virtual training sessions could be held, we were able to attract larger audiences, reaching a total of 1,497 people, only slightly down from the 2019 figure of 1,697.

#### Number of training sessions by region and type<sup>1</sup>

Region	Type and number of training sessions							
	Fundamental <sup>2</sup>		Performance <sup>3</sup>		Sustainability <sup>4</sup>		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Asia	13	33	18	16	12	17	43	66
Americas	12	37	2	3	1	7	15	47
EMEA	–	9	2	–	1	1	3	10
<b>Total</b>	<b>25</b>	<b>79</b>	<b>22</b>	<b>19</b>	<b>14</b>	<b>25</b>	<b>61</b>	<b>123</b>
In %	41	64	36	15	23	20	100	100

1 Training sessions conducted for factory management, workers, licensees, agents and adidas employees.

2 Fundamental training covers Workplace Standards and SEA introduction, FFC training as well as SEA policies and standard operating procedures.


3 Performance training covers specific labor, health, safety and environmental issues.

4 Sustainability training covers management systems and KPI improvements as well as factories' internal monitoring programs.


As part of our forced labor risk assessment and trainings for Tier 2 material suppliers that employ foreign migrant labor, we engaged remotely with many suppliers covered under the umbrella of our partnership on responsible recruitment with the International Organisation for Migration. These engagements and trainings ranged from desktop reviews to online supplier trainings on labor recruiter due-diligence via the International Organization for Migration's e-campus foundation course on ethical recruitment.

As part of our efforts to scale the adoption of renewable energy within our supply chain, we conducted an extensive training on 'How to perform a solar PV rooftop feasibility study and installation' (also known as 'Rooftop Solar Guideline') which was translated into four languages. The training provided a comprehensive overview for suppliers to facilitate the transition to renewable energy, reducing scope 1 and 2 emissions, and eventually supporting commitments to the UNFCCC targets. The objectives of the training were to ensure consistency across the entire adidas supply chain, provide guidance on how to select a vendor, or conduct feasibility studies, among others. It covered two main sections: the feasibility study and the installation process.

Also in 2020, adidas launched the adidas Chemical Management (aCM) training, conducting 15 training sessions in China and Taiwan with 141 participants. Through this chemical management academy our aim is to:

- ensure facilities have the right competence and responsibility on site to manage the facilities' operation
- enable facilities to implement a chemical management system in the production process on a long-term basis
- share best practice/available technology among industry peers, and
- drive continuous improvement 

### Monitoring

 We audit our suppliers regularly against our Workplace Standards. In 2020, however, we had to adjust our monitoring approach to accommodate covid-19 lockdowns and travel restrictions. Where possible, we continued to follow our regular onsite assessments, including wastewater testing, while also piloting the use of remote 'Desktop Assessments'. Of the total 921 social compliance audits and environmental assessments conducted in 2020 (2019: 1,191), 128 were conducted remotely. Despite the constraints imposed by covid-19, we successfully completed 256 test assessments according to the ZDHC Wastewater Guidelines (2019: 234), which also count toward our environmental assessments.

In 2020, 88 self-governance audits and collaboration audits (2019:102) were conducted. When a factory reaches a compliance maturity level of 4C or above, we empower the supplier to conduct their own self-governance audits and develop appropriate remediation plans, which we periodically review. Collaboration audits are conducted in partnership with other brands, or as part of joint remediation exercises. The number of audits in factories manufacturing goods for licensees decreased slightly from 317 in 2019 to 278 in 2020.

Our audits help us rate our suppliers according to their social and environmental compliance performance with a C-KPI and E-KPI rating tool, respectively. As we continue to increase our focus on added-value advisory services and empowerment projects, which go beyond our regular audit routine, the number of audits conducted by our own in-house team has decreased to 251 in 2020 (2019: 299). Similarly, audits conducted by third-party monitors also decreased to 612 at the end of 2020 (2019: 658).

- **Audit coverage:** A total of 48% (2019: 49%) of all direct and licensee facilities were audited in 2020. 'High-risk' locations in Asia, which is the most significant sourcing region for adidas, were the subject of extensive monitoring in 2020, with an audit coverage close to 64% (2019: 75%). As a general principle, factories located in high-risk countries are 100% covered in our auditing scope, which means they receive audits annually (unless they are rated as 'self-governing', in which case they are subject to audits every two years), while low-risk countries with strong government enforcement and inspectorate systems, such as Germany, are considered out of scope for our audit coverage.
- **Audit results:** In 2020, 91% of our strategic factories achieved a rating of 4C or better, compared to 54% of all direct factories. This exceeded our 2020 target, which called for 80% of our strategic suppliers to reach 4C or above. As such, these higher ratings show that our strategic suppliers have continued to strengthen their compliance performance, despite the headwinds created by covid-19. Some 12% of our strategic suppliers' factories have progressed even further, achieving a 5C rating, which shows that they have mature social compliance governance systems and practices in place.

#### Number of audits by region and type

Region	Initial assessment <sup>1</sup>		Performance audit <sup>2</sup>		Environmental assessment <sup>3</sup>		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Asia	120	159	311	511	420	384	851	1,054
Americas	5	20	12	38	18	19	35	77
EMEA	2	10	20	35	13	15	35	60
<b>Total<sup>4</sup></b>	<b>127</b>	<b>189</b>	<b>343</b>	<b>584</b>	<b>451</b>	<b>418</b>	<b>921</b>	<b>1,191</b>

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

2 Audits conducted in approved factories that have passed the initial assessment.

3 Includes environmental assessments, SAC HIGG data verification and wastewater test assessments according to the ZDHC Wastewater Guidelines.

4 Includes audits done in licensee factories.

#### Supply chain: Progress toward 2020 targets

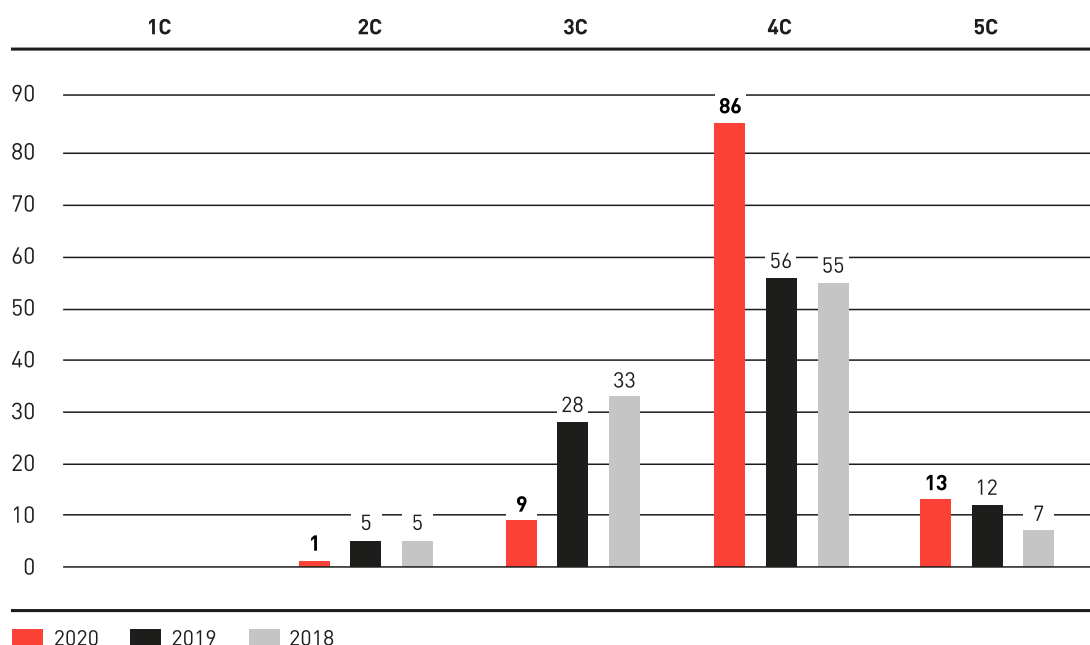
2020 Targets		2020	2019	2018
<b>Strategic Tier 1 suppliers<sup>1</sup></b>	80% to reach at least 4C rating	91%	68%	62%
	10% to reach 5C rating	12%	12%	7%
<b>Strategic licensees</b>	80% to achieve 80% or above in Score Card reports	82%	86%	80%
	10% to achieve Sustainability Leadership	14%	14%	20%

1 Strategic factories are responsible for around 90% of our global production volume.

Of our strategic licensees, 82% successfully embedded effective governance systems, supply chain management, purchasing practices and product safety compliance requirements into their business practices. 14% achieved a 'Sustainability Leadership' level, signaling that, in addition to achieving high scores in other sections, they also scored above 80% in the sustainability section of their annual report

card, which measures the existence of policies and implementation, stakeholder engagement, public reporting and communication. <sup>1</sup>

#### Social compliance performance rating of strategic supplier factories by C-KPI rating

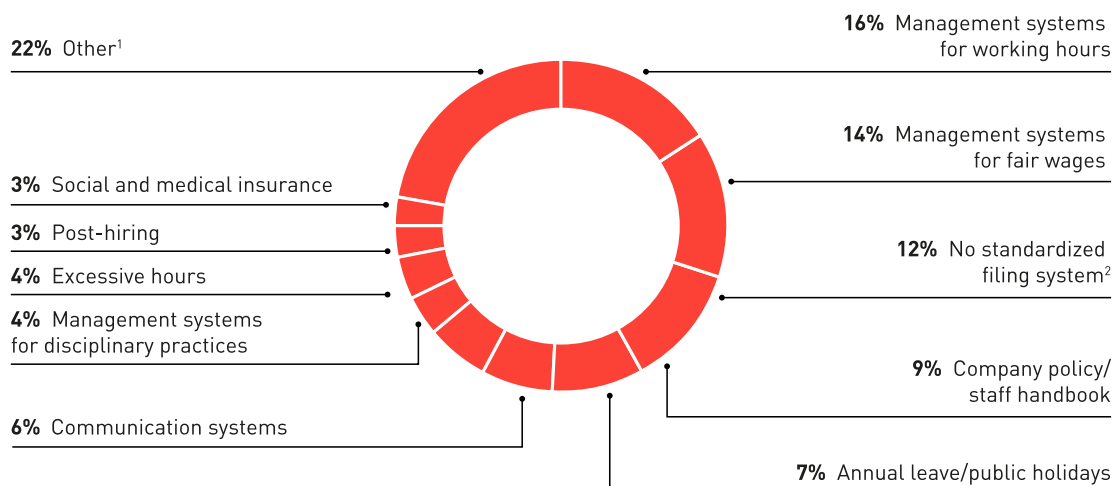


#### Non-compliances identified in active factories

<sup>1</sup> Our suppliers' factories are evaluated against a number of critical compliance issues. While threshold issues are considered serious but correctable non-compliances that can be addressed in a specified timeframe through remedial action, zero-tolerance issues – such as forced labor, child labor practices and critical life-threatening health, safety and environment conditions – immediately trigger a warning and potential disqualification of a supplier. Over the course of each year, we continuously track the non-compliance findings identified through suppliers' performance audits, collaboration audits, self-governance assessments and, as of 2020, Social & Labor Convergence Program (SLCP) assessments. We follow up on all cases of non-compliance and require our suppliers to remediate open issues within a specified timeframe. As can be seen below, the identified issues in 2020 remained largely the same as those reported in 2019.

- **Non-compliances in the area of labor:** Besides identifying non-compliances with the Workplace Standards, our team focuses on the use and effectiveness of the factories' HR management systems, including any gaps in policies and procedures, related to specific risk areas, such as forced labor, child labor, freedom of association or discrimination. As a result, the percentages shown indicate the systemic shortcomings of active factories, rather than the confirmed presence of a specific case of non-compliance.

### Top 10 shortcomings in the area of labor identified during audits in 2020

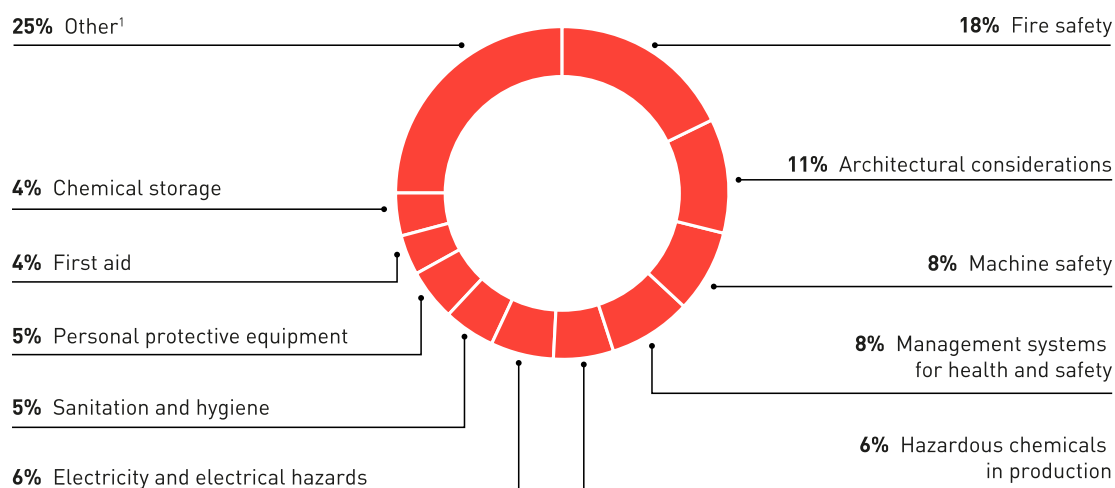


<sup>1</sup>Other<sup>1</sup> includes, for example, freedom of association issues.

<sup>2</sup>No standardized filing system<sup>2</sup> indicates a factory does not keep relevant information/documents and records which demonstrate compliance with laws and regulations.

— **Non-compliances in the area of health and safety:** Fire, electrical and machine safety are critical areas for existing factories and together accounted for 32% of the non-compliances identified in 2020. The way chemicals were stored and used, including the handling of hazardous chemicals, accounted for 10% of non-compliance findings reported. A further 8% of the findings related to management systems, policies and procedures, and specifically a lack of compliance with our Workplace Standards and expectation for effective health and safety systems, including the recruitment and retention of qualified safety staff. ▮

### Top 10 shortcomings in the area of health and safety identified during audits in 2020



<sup>1</sup>Other<sup>1</sup> includes, for example, housekeeping, occupational hazard risk assessment, and ergonomics.

## Independent FLA audits

Due to covid-19 related restrictions, unannounced and independent assessments by the Fair Labor Association (FLA) were heavily limited resulting in one Sustainable Compliance assessment for the year for adidas. Nevertheless, FLA focused its efforts on:

- supporting company affiliates' ability to manage covid-19-related risks by issuing various guidance notes to address labor and health- and safety-related risks resulting from the pandemic,
- continuing capacity building on responsible recruitment and forced labor,
- issuing guidance to prevent forced labor risks and issuing statements on sourcing in Xinjiang, and
- completing a comprehensive review and update to the FLA Compliance Benchmarks.

## Enforcement

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

- **Warning letters:** In 2020, our close engagement with our supplier' factories has helped reduce the number of active warning letters to 22 (2019: 41) across ten countries. Compared to the previous year, the overall number of active first-warning letters decreased significantly, from 34 in 2019 to 19 in 2020; the total number of second warnings also decreased to 3 in 2020 (2019: 6). Factories that receive second-warning letters are only one step away from being notified of possible termination of the manufacturing agreement and are subject to focused monitoring by our SEA team. No third-warning letters (which result in factory terminations) were issued to our suppliers in 2020 (2019: 1).
- **Terminations:** In 2020, we had no terminations of supplier agreements for social or environmental compliance reasons (2019: 2).

### Number of warning letters by region<sup>1</sup>



Region	1st warning		2nd warning		3rd and final warning		Total warning letters	
	2020	2019	2020	2019	2020	2019	2020	2019
Asia	16	27	2	5	–	1	18	33
Americas	2	4	–	–	–	–	2	4
EMEA	1	3	1	1	–	–	2	4
<b>Total</b>	<b>19</b>	<b>34</b>	<b>3</b>	<b>6</b>	<b>–</b>	<b>1</b>	<b>22</b>	<b>41</b>

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

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

Region	2020	2019
Asia	0	2
Americas	0	0
EMEA	0	0
Global	0	2

# NON-FINANCIAL STATEMENT

In accordance with §§ 315b, 315c HGB in combination with §§ 289b to 289e HGB, adidas publishes a combined non-financial statement for adidas AG and the Group in this combined Management Report. The content of the non-financial statement can be found throughout the entire combined Management Report, with relevant parts being indicated by this symbol:  . These parts are not covered by the Audit of the Con-solidated Financial Statements and of the Group Management Report, as they were subject to a separate limited assurance engagement of KPMG AG Wirtschaftsprüfungsgesellschaft. Links and references are not part of the non-financial statement and have not been assessed. ► **SEE LIMITED ASSURANCE REPORT OF THE INDEPENDENT AUDITOR**

adidas applied the Global Reporting Initiative (GRI) guidelines as an external reporting framework. The content of the non-financial statement combined with further information in this report and on our corporate website is prepared with reference to the GRI Standard 'Core' option. The GRI content index can be found online. ► [REPORT.ADIDAS-GROUP.COM](https://report.adidas-group.com)

## Description of business model

- SEE GLOBAL SALES
- SEE GLOBAL OPERATIONS

## Environmental approach

- Sustainable materials and processes
- SEE SUSTAINABILITY
- Water consumption (supply chain)
- SEE SUSTAINABILITY
- Carbon footprint (supply chain)
- SEE SUSTAINABILITY
- Waste volume (supply chain)
- SEE SUSTAINABILITY

## Product responsibility

- Product safety and integrity
- SEE SUSTAINABILITY

## Human Rights

- Fair labor conditions
- SEE SUSTAINABILITY
- Fair labor conditions (supply chain)
- SEE SUSTAINABILITY
- Supplier relationships
- SEE GLOBAL OPERATIONS

## Employee matters

- Wages and benefits
- SEE OUR PEOPLE
- Development and training
- SEE OUR PEOPLE
- Employee engagement
- SEE OUR PEOPLE
- SEE INTERNAL MANAGEMENT SYSTEM
- SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK
- Diversity
- SEE OUR PEOPLE

## Consumer matters

- Consumer satisfaction
- SEE INTERNAL MANAGEMENT SYSTEM

## Anti-bribery and corruption

- Ethical business practices
- SEE RISK AND OPPORTUNITY REPORT

## Tax

- Our approach to tax
- SEE SUSTAINABILITY