

# 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.

## SUSTAINABILITY AS STRATEGIC FOCUS AREA

Our commitment to sustainability is embedded into how we have done business for over two decades. It is rooted in our purpose 'Through sport, we have the power to change lives.' In 2021, sustainability was defined as a strategic focus area of our strategy 'Own the Game.'

Consequently, we have doubled down on our commitment to sustainability and defined a roadmap for 2025 and beyond that allows us to create a positive impact across relevant areas, always focusing on the most material topics – for us and our stakeholders. We will move to a comprehensive, consumer-facing sustainable article offering at scale, expand our circular services, and work toward achieving climate neutrality (CO<sub>2</sub>e) across our entire value chain. We will empower our employees to become sustainability ambassadors, just as we invite consumers globally to engage and connect with us on the topic of sustainability. Lastly, we aim to uphold the highest social compliance standards in our supply chain.

We believe that moving toward achieving the targets we have defined for 2025 will set us up for future success. Yet we know that we cannot achieve these alone. We will leverage our long-term relationships with suppliers to ensure they can continue moving with us in alignment with our decarbonization efforts, and work closely with partners to scale innovative materials and recycling technologies. The table below provides an overview of the targets we have set for 2025, supporting our drive for positive environmental and social impact.  [SEE STRATEGY](#)  [ADIDAS-GROUP.COM/S/SUSTAINABILITY](https://adidas-group.com/s/sustainability)

# TARGETS FOR 2025 AND BEYOND: ENVIRONMENTAL IMPACTS

Target year	Area	Target	Baseline
2025	<b>Own operations</b>		
	Emissions	Achievement of climate neutrality (CO <sub>2</sub> e)	
	Water	15% consumption reduction (m <sup>3</sup> /m <sup>2</sup> )	2019
	Waste	95% diversion rate	2019
	<b>Supply chain</b>		
	Energy	Adoption of renewable energy at strategic Tier 1 and Tier 2 supplier facilities to keep emissions flat	2017
	Water	40% intensity reduction at Tier 2 supplier facilities	2017
	Chemicals (Input)	80% of supplier facilities to achieve the highest level of compliance (level 3) with ZDHC 'Manufacturing Restricted Substances List' for 80% of the chemicals used for production	
	Wastewater (Output)	80% of suppliers that operate on-site effluents plants to achieve ZDHC 'Wastewater Foundational Level'	
	<b>Product</b>		
2030	Sustainable article offering	9 out of 10 articles will be sustainable, meaning that they are – to a significant degree – made with environmentally preferred materials	2020
	Decarbonization	15% reduction of GHG emissions per product	2017
	<b>Entire value chain (from raw material production to own operations)</b>	30% reduction of GHG emissions	2017
2050		Achievement of climate neutrality (CO <sub>2</sub> e)	

## TARGETS FOR 2025 AND BEYOND: SOCIAL IMPACTS

Target year	Impact area	Target
2025	<b>Own operations</b>	
	Health and Safety	Lost-Time Incident Rate ('LTIR') below industry average <sup>1</sup> ; Zero fatal accidents; Occupational Illness Frequency Rate ('OIFR'): Zero
	<b>Supply Chain</b>	
	Social impact ('S-KPI')	70% of Tier 1 strategic suppliers achieve at minimum '4S'; 100% of Tier 1 strategic suppliers achieve '3S' or better <sup>2</sup>
	Fair wages	Progressive improvement in compensation, measured by fair wage benchmarks across our strategic Tier 1 suppliers <sup>3</sup>
	Gender	Achieve gender wage parity for workers and their supervisors in our strategic Tier 1 suppliers <sup>4</sup>
	<b>Entire value chain (from raw material production to own operations)</b>	
	Human Rights and Environmental Due Diligence ('HREDD')	System in place to identify and manage high-risk human rights issues in 100% of value chain <sup>5</sup>

1 According to 'US Bureau of Labor Statistics Code.'

2 The S-KPI measures a set of social indicators, such as accident rates, worker satisfaction and worker empowerment. The target seeks to achieve 100% adherence to/70% overachievement against these foundational social impact measures, with '3S' being the minimum expected supplier performance.

3 The fair wage benchmarks include industry wages, minimum wages and living wages. These benchmarks are set and tracked through a 'Fair Labor Association Fair Compensation Tool,' which has broad industry adoption and is being rolled out progressively to strategic Tier 1 supplier partners.

4 The measurement of wage parity for production line workers and their immediate supervisors (i.e., line leaders) forms part of a broader gender strategy rollout to applicable Tier 1 strategic partners who complete self-assessments to identify and then close gender gaps in operating practices and procedures.

5 In conducting due diligence we seek to identify, prevent or mitigate potential adverse human rights or environmental impacts, with priority given to addressing the most severe impacts.

## 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 perform stakeholder consultations to confirm the selection of our material topics. We use insights gained from past assessments and from engagements we hold with multiple organizations throughout the year, review and categorize potential new topics and validate these through 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. There were no material changes in 2021, compared to the list of topics in 2020. ► [SEE NON-FINANCIAL STATEMENT](#)

We also make use of the United Nations Sustainable Development Goals (SDGs) as a framework to map their correlation with our own commitment to sustainable development and human rights. We have been able to link prioritized SDGs with both the environmental priorities related to, for example, the selection of materials, manufacturing, use, and disposal of our products, and the needs and concerns of people in the adidas value chain. ■

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## 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 efforts to mitigate the carbon footprint in our industry's supply chain, 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 Work' program, as well as with the United Nations International Organization for Migration ('IOM') with the objective to ensure that the labor rights of foreign and migrant workers are upheld in the adidas supply chain.

**Key memberships:**

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

We believe transparent communication with our stakeholders is critical. For that reason, we use global reporting standards such as the guidelines of the Global Reporting Initiative ('GRI') and the Sustainability Accountability Standards Board ('SASB') to inform our external non-financial reporting. We regularly disclose additional 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 list 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.

We acknowledge the value of climate-related reporting and for many years have been reporting into well-established frameworks. Based on its international accreditation, we are aiming to stepwise include the 'Task Force on Climate-related Financial Disclosures' ('TCFD') recommendations that enable companies to improve reporting of climate-related financial information, especially climate-related risks and opportunities. The TCFD is structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management as well as metrics and targets.

We believe that with our long-standing commitment to and strategic focus on sustainability we are already covering elements of the four thematic areas in various sections of our Annual Report. adidas has chosen sustainability as a focus area in its company strategy 'Own the Game' and therefore a comprehensive roadmap with clear targets is in place. The Sustainability Sponsor Board ensures end-to-end management of this strategy. As part of our risk identification process, we monitor physical risks related to climate change as well as risks and opportunities resulting from the transition to a low-carbon economy. To further refine and develop the core reporting elements in line with the TCFD recommendations, a cross-functional project team was set up in 2021. This team will proceed with establishing solid governance processes around the TCFD and will particularly focus on establishing climate-related scenario analyses. Given the complex nature of the topic, further preparation will be needed to build more granularity and to ensure high quality for more extensive external reporting.  **SEE RISK AND OPPORTUNITY REPORT**

## GOVERNANCE STRUCTURE

■ A robust governance structure ensures timely and direct execution of programs that drive the achievement of our new set of targets for 2025 and beyond. 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. This person also leads the 'Sustainability Sponsor Board,' which is composed of senior representatives from Global Brands, Global Operations, Digital, Sales, and other relevant functions across the company. The 'Sustainability 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 and Environmental Affairs ('SEA') Team to evaluate supplier-facing social and environmental compliance performance and human rights impacts, reporting, through the General Counsel, to the CEO.

We have set up regular sustainability networking calls for all employees involved in sustainability projects and programs in the organization to ensure company-wide alignment on all levels. On top of this, adidas developed a company-wide sustainability training program available to all employees, educating them on how to think and act sustainably, enabling them to become sustainability ambassadors and encouraging everyone to make personal and professional commitments to contribute to a cleaner planet. Thousands of colleagues have gone through the training in 2021. We also initiated sustainability training for our retail colleagues, with the objective of informing, engaging, and inspiring our entire team and all consumers we interact with on a daily basis, around the globe. [▶ SEE OUR PEOPLE](#)

## EXTERNAL RECOGNITION


■ adidas continuously receives positive recognition from international institutions, rating agencies, NGOs, and socially responsible investment analysts for its holistic approach to managing sustainability. In 2021, adidas was again subject to comprehensive corporate environmental, social, and governance ('ESG') assessments, and took part in focused thematic disclosure benchmarks for environmental or social performance. As a result, adidas was represented in a number of high-profile sustainability indices, ratings, and disclosure benchmark evaluations.

Notably, following a thorough assessment by rating agency S&P in 2021, adidas was awarded with an overall ESG Evaluation Score of 85, placing us among the top ten in the entire S&P Global Rating Universe. In its comprehensive assessment, S&P emphasized our industry-leading approach to innovation, supply chain management, and consumer engagement. [▶ SEE OUR SHARE](#)

### EXTERNAL RECOGNITION 2021

Environmental, Social, Governance Performance (ESG)	Environmental Performance	Social Performance
MSCI ESG Rating ( 'AAA,' upper score: 'AAA' )	CDP Climate Change ( 'B' score, upper score: 'A' )	Corporate Human Rights Benchmark (first in our industry)
S&P Global ESG Evaluation (85/100, upper score:100)	CDP Water ( 'B' score, upper score: 'A' )	KnowTheChain Benchmark (among top 3 in our industry)
Sustainalytics ESG Risk Rating (13.3/100, upper score: 0)	Corporate Information Transparency Index (among top 10 in our industry)	World Benchmarking Alliance Gender Benchmark (among top 3 in our industry)

## ENVIRONMENTAL IMPACTS

Managing the environmental impacts at our own sites and along the entire value chain is a key focus of our work. We are committed to decarbonization by reducing our absolute energy consumption and CO<sub>2</sub>e emissions as well as transitioning to clean energy. We are also committed to steadily increasing the use of more sustainable materials in our products and expanding our circular services. We continue to address water efficiency and quality, with an advanced chemical management program in place. 

### DECARBONIZATION


According to the United Nations, climate change presents the most pressing long-term challenge facing civilization. For that reason, it was critical for us to set science-based decarbonization targets that help limit global temperature rise. adidas committed to achieving climate neutrality (CO<sub>2</sub>e) across its own operations by 2025, reducing absolute greenhouse gas (GHG) emissions across its entire value chain by 30% by 2030, measured against a baseline of 2017, and, with that, paving the way for climate neutrality (CO<sub>2</sub>e) across its entire value chain by 2050. We support global initiatives that aim to drive change for our industry, such as the Fashion Pact and the UN Fashion Industry Charter for Climate Action ('UNFCCC'). We also committed to the Science Based Targets initiative ('SBTi') in 2020 and received SBTi approval of our targets in spring of 2021.

**2030 Goal: GHG emissions reduction across entire value chain by**















# 30%

Moving toward achieving our ambitious target requires reliable data. We developed an 'Environmental Footprint Tool' that enables us to quantify, monitor, and be transparent about our environmental impacts not only across our own operations, but along our entire value chain. This covers all stages from extraction, production and processing of materials, product assembly, own operations, and logistics, to the disposal of our products at the end of their lifetime.

The tool has been instrumental in understanding our impact caused by GHG emissions, and to setting appropriate GHG emission reduction targets. We believe it is essential to thoroughly track and measure our progress toward our targets and to conduct scenario analyses to make fact-based decisions. In 2022, we aim to fully integrate the tool into our existing data-tracking systems to enable real-time simulations. At the same time, we acknowledge that the tool will experience further developments to meet the required, more complex methods to calculate our footprint in the future.

Results for 2021 clearly show that our estimated environmental impacts are distributed somewhat unequally across the value chain, with the most significant impacts generated in the supply chain (more than 90%), particularly raw materials production and processing. Collaborating with our extended supply chain partners to help them reduce their GHG emissions and continuing to seek more sustainable versions of the raw materials that we use for our products has thus become core to our program. 

ENVIRONMENTAL FOOTPRINT<sup>1</sup>

Environmental impact of adidas throughout the value chain <sup>1</sup>								Total 2021
	T4+	T3	T2	T1	Logistics	Own Operations	End of Life	
	Raw materials production	Spinning	Manufacturing, dyeing, and finishing processes	Assembling	Inbound and outbound logistics	Offices, distribution centers, own production sites, own retail, and business travel	End-of-life treatments	Including all stages of product life cycle
2021 [MtCO <sub>2</sub> e]	1.4	0.5	2.9	0.6	0.3	0.1	0.2	6.0
GHGs	 23%	 9%	 49%	 10%	 5%	 2%	 2%	

<sup>1</sup> Values reported cover production seasons SS21 and FW21. Raw materials production and processing (Tier 4+, Tier 3, Tier 2): Impacts are estimated based on quantities of materials and life cycle analysis data. All key production processes are considered. Primary, secondary, and tertiary packaging material quantities are included. The quantities are estimated based on sales volumes, using composition and weight assumptions from the 'Product Environmental Footprint Category Rules' ('PEFCR'). Assembling (Tier 1): Impacts are estimated by applying emission factors to reported energy consumption from Tier 1 strategic suppliers. Sourcing volume data is used to estimate the impact of non-strategic suppliers (<20%). Logistics: Quantities of goods for specified distribution routes are combined with transport emissions factors. Own Operations: Impacts are estimated based on reported environmental quantities in the workplace governance data system and business travel data system. End of Life: Emissions caused by disposal of our products by consumers are estimated based on sales volumes and typical waste disposal routes (e.g., landfill and incineration).

## SUPPLY CHAIN

As a substantial portion of environmental impact occurs, at different intensities, throughout the supply chain, sourcing at adidas is not only about ensuring high product quality and timely delivery. It also means working with our suppliers to ensure they are continuously optimizing their environmental footprint in the area of energy use and carbon emissions, water, wastewater, chemicals, and waste. Strategic suppliers at Tier 1 and Tier 2 level producing most of our products and materials are enrolled in our environmental program, which means we partner closely with them and provide suitable training to achieve their targets and progressively improve their footprint.

In 2021, we engaged with our suppliers enrolled in the environmental program and empowered them to develop decarbonization business plans on their own, considering they best understand their respective situation and can find the most appropriate measures for their future GHG emission reduction plans. In addition, we encouraged all suppliers to enroll in the 'UNFCCC Climate Action Training' to equip them with the knowledge they need to effectively mitigate climate change and achieve climate neutrality (CO<sub>2</sub>e). Beyond that, we drove various initiatives to help suppliers scale the use of renewable energy and increase their energy efficiency.


- **Increasing adoption of renewable energy:** We have seen progress following our 2025 target to keep emissions flat on 2017 levels through increased adoption of renewable energy. After we had conducted feasibility studies with positive results in 2020, we encouraged suppliers in our environmental program to install rooftop solar panels and successfully increased the rooftop solar power in our supply chain to 93 MWp in 2021. We have also contractually secured additional capacity and aim at achieving coverage of 50% of the total potential in 2022. We will continue to identify and strengthen additional potential in 2022 to gradually include more of our Tier 2 suppliers.



- **Phasing out coal-fired boilers:** Eliminating the use of coal-fired boilers at all direct supplier facilities at Tier 1 and Tier 2 will result in a proportionally high positive environmental impact. We committed to not installing any new coal-fired boilers, heaters, and power generation from 2022 onward, as well as to phasing out existing on-site coal-fired equipment at all direct suppliers at Tier 1 and Tier 2 level by latest 2025. Enforcement methods are in place in case of non-achievement. We are supporting our suppliers with on-site coal-fired equipment for the phase-out by completing feasibility studies, outlining replacement alternatives, and defining a clear roadmap and developing adequate training for 2022.
- **Preparing suppliers to purchase renewable energy in Vietnam:** adidas has continued to work closely with key suppliers in Vietnam, providing the technical guidance and expertise to enroll and access the first off-site renewable project. Once approved, the pilot program will feature 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.
- **Continuing to increase energy efficiency:** Further optimizing energy efficiency remains important going forward. We moved to a supplier self-governance model in 2021, which means that suppliers take full responsibility for their efforts and achievements, while adidas keeps tracking and monitoring their energy efficiency performance. We successfully achieved a 3% reduction, comparing to 2019 baseline.
- **Developing industry-wide training in Asia:** We co-developed an online climate action training program with 'Deutsche Gesellschaft für Internationale Zusammenarbeit' ('GIZ') that was rolled out to all Tier 1 and Tier 2 suppliers covered in our environmental program in 2021. The training's objective is to upskill the fashion supply chain on GHG emissions, show how to set targets, and identify reduction measures such as adopting renewable energy and improving energy efficiency. Through annual on-site audits we will track progress to ensure that the suppliers have qualified staff in place.


In 2021, we expanded on our water reduction efforts to include additional, high-consuming Tier 2 suppliers in our program. Through the application of new technologies, among others, we aim to achieve a 40% reduction in water intensity against the 2017 baseline by 2025. In 2021, Tier 1 suppliers achieved a 15% reduction in water intensity, and Tier 2 suppliers an 18% reduction. We moved toward a supplier self-governance model in 2021, which means that suppliers take full responsibility for their efforts and achievements, while adidas is still tracking and monitoring performance. Guided by our ambition to support our suppliers in the best possible way, we have developed environmental good practice guidelines with water-saving initiatives.

We also continued to work toward optimizing landfill diversion, achieving a 93% waste diversion rate at the end of 2021 for suppliers enrolled in our environmental program. This success was supported, among others, by a program we set up in 2019 in major sourcing countries including Cambodia and Vietnam to use production waste as an energy source in the cement industry. While this solution has its limitations due to a lack of logistics in some countries, it enabled us to identify suppliers that had a low diversion rate, challenging them to engage with service providers for waste processing. adidas has developed a waste management guideline, waste co-processing due diligence guideline and environmental good practices guideline showing how to improve waste segregation to increase its market value, and minimize overall waste generation.

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. 

## CHEMICAL MANAGEMENT

adidas has been building and implementing a holistic 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.

- **Ensuring robust input chemical management:** To avoid hazardous chemicals entering into our supply chain we require our suppliers to increase the usage of chemicals that have achieved the highest level of conformance (level 3) of the Zero Discharge of Hazardous Chemicals ('ZDHC') Manufacturing Restricted Substances List ('MRSL'). In 2021, we guided our suppliers to report their chemical inventory and consumption through a ZDHC-approved third-party online platform on a monthly basis. Suppliers were provided with performance reports through which we could enhance overall visibility on chemical inventory management in our supply chain. By the end of 2021, 42% of supplier facilities achieved chemical use compliant with ZDHC MRSL level 3, taking us closer to our 2025 target of 80% of facilities to be compliant.
- **Monitoring output chemical management:** Pollution abatement is critically important for the textile industry, which is why we have also set targets for suppliers for managing their wastewater discharge performance. To support facilities in their continuous improvement on wastewater discharge quality, we rolled out an effluent treatment plant evaluation that supports them to strengthen their quality controls on wastewater discharge. We are also partnering with ZDHC to integrate this assessment tool into their industry platform. Despite the challenges our facilities experienced during the pandemic due to country lockdowns and severe disruption of on-site wastewater sampling, we observed a significant improvement with 87% of our suppliers achieving ZDHC Wastewater 'foundational level' in 2021. With that, we have already exceeded our 2025 target of 80% of our suppliers operating on-site effluent plants to achieve ZDHC Wastewater 'foundational level.'
- **Collaborating with the industry to improve chemical management processes:** Together with industry partners, we supported ZDHC on the development of their technical industry guideline. The publication of this guideline further strengthened industry collaboration on driving one standard on chemical management practice for suppliers. We also joined an industry collaboration to better understand and get more visibility on the hazardous chemicals that may exist in recycled materials. 

## TRANSPORTATION

We regularly track the environmental impact related to the transport of our goods. Compared to the previous year, performance remained relatively stable. While the use of air freight increased in 2021 as part of our efforts to counterbalance covid-19-related supply chain challenges, the vast majority of our transportation continued to take place via sea freight, with 97% of footwear, 93% of apparel and 72% of accessories and gear being shipped via sea freight in 2021.


## MORE SUSTAINABLE MATERIALS


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.

As part of 'Own the Game' we aim to move to a comprehensive sustainable offering at scale. Our ambition is that 90% of our articles will be sustainable by 2025. We define articles as sustainable when they show environmental benefits versus conventional articles due to the materials used, meaning that they are – to a significant degree – made with environmentally preferred materials. The majority of the environmentally preferred materials currently used are recycled materials or more sustainable cotton. Additionally, innovative materials such as biobased synthetics, and more sustainably grown natural materials are used on a small scale already and will become increasingly relevant in the future.


To qualify as a sustainable article, environmentally preferred materials have to exceed a certain pre-defined percentage of the article weight. The applied criteria for environmentally preferred materials and the percentage of the article weight are defined based on standards reflecting the latest developments in our industry, competitor benchmarks, and expert opinions: For apparel, the environmentally preferred material content is required to amount to at least 70% of the article weight, for accessories and gear at least 50%, and for footwear at least 20%.<sup>15</sup> This standard will be applied for the years 2022 onwards.

For 2021, the first year of reporting in the new strategic cycle, we applied a different standard<sup>16</sup> and were able to increase the percentage of sustainable articles by eight percentage points for the Spring/Summer 2022 season compared with the Spring/Summer 2021 season.<sup>16</sup>

By the end of 2022, we aim to have seven out of ten of our articles sustainable.  [SEE COMPENSATION REPORT](#)

 The following materials build the foundation of the environmentally preferred materials we use:

- **More sustainable cotton:** adidas has steadily increased the sourcing of [more sustainable cotton](#) throughout the last several years and already manages to source 100% more sustainable cotton since the end of 2018.
- **Recycled polyester:** To increase the use of recycled polyester is yet another way we seek to improve our environmental footprint while still making high-performance products for athletes. 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 progress throughout the last several seasons. 91% of all polyester used in 2021 was recycled. With that, we are on track to use only recycled polyester from 2024 onward.
- **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 polyester. In 2021, we continued to roll out Parley Ocean Plastic across key categories, both in 'Performance' and 'Lifestyle' products across footwear, apparel, and accessories. In 2021, we produced close to 18 million pairs of shoes containing Parley Ocean Plastic.  [SEE GLOBAL BRANDS](#)

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 the production of materials and their use phase, and acknowledge fiber fragmentation as a complex challenge for our industry – one we are proactively addressing. adidas is co-founder of 'The Microfibre Consortium' ('TMC'), which has developed a test method and in future aims to give guidance to the textile industry to mitigate the impact of fiber fragmentation. 

<sup>15</sup> Percentage of sustainable articles (by count) offered at the points-of-sale (average of Fall/Winter season of the current financial year and Spring/Summer season of the following financial year). For the calculation of the article weight, trims are excluded for apparel and accessories and gear. Only articles with verified environmentally preferred material contents are included. Licensed articles are excluded. Without Reebok.

<sup>16</sup> For apparel and accessories and gear, the environmentally preferred material content is based on the article weight (at least 25% recycled content or 50% sustainable cotton; excluding trims), for footwear (only upper part) it is based on material components (at least 25% of the components used contain 50% or more recycled content) or article weight (at least 25%). The percentage of sustainable articles (by count) offered at the points-of-sale in Spring/Summer 2021 amounted to 60.6%. Only articles with verified environmentally preferred material contents are included. Licensed articles are excluded. Without Reebok.

## CIRCULAR SERVICES

■ In addition to using recycled content or more sustainable material for our products, we steadily expand our circular service offering. Since we introduced Futurecraft.Looped – our first fully recyclable running shoe – as a beta program in 2019, it has developed into a concept within the business that spans multiple categories, and April 2021 saw the first commercial launch with the Ultraboost 'Made To Be Remade' ('MTBR'). The shoe features a prominently displayed QR code that can be scanned using the adidas app and is guiding consumers through the take-back process. Other MTBR models launched this year are the Stan Smith MTBR and Terrex Free Hiker MTBR, and MTBR apparel products for Running and adidas Stella McCartney. Additional products will follow in 2022, such as the Terrex MTBR Anorak.

Complementing its recyclable product offering, adidas innovates with new business models as we expand our take-back services. We introduced 'Choose to Give Back' which is aimed at helping to extend the lifecycle of worn sportswear apparel and footwear. Under this program that started in October 2021 in the United States, products in any condition and made by any brand can be sent in. Products in good condition are resold through our collaborator, thredUP, with the aim of finding a new owner for as many products as possible. Going forward, we will scale the program and roll it out to more markets.

adidas has already made its first prototypes using innovative materials, proving that a reliance on finite fossil fuels, such as crude oil, might be reduced in the future. The adidas Stan Smith Mylo, presented in 2021, is created with a natural, renewable material made from mycelium, developed in collaboration with 'Bolt Threads.' adidas is also collaborating with startups, such as 'Infinited Fiber,' 'Spinnova,' and 'Pond,' to work on materials made of natural resources that we can use in our product. Together, we are striving to substitute fossil-based plastic materials with plant-based raw materials – all without compromising our performance proposition.

In collaboration with US running shoe manufacturer Allbirds, adidas developed its most climate-friendly performance running shoe ever with a carbon footprint (CO<sub>2</sub>e) of merely 2.94kg (measured against a comparable running shoe: adizero RC3 at 7.86kg CO<sub>2</sub>e emissions), offering a limited number for sale. For example, the upper is made with recycled polyester from adidas and only renewable energy is used to produce the shoe. ■ ► [SEE GLOBAL BRANDS](#)

## PACKAGING

■ We are committed to reducing our plastic footprint globally. 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 explored 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 succeeded in changing practically all of the polybags used to protect finished products during transport from our manufacturing facilities from virgin material to 100% recycled LDPE (low-density polyethylene) polybags by the end of 2021. Most of the few remaining virgin polybags cannot be replaced currently as no alternative is available in the production country and import restrictions are in place. ■

## 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.

The creation of respective adidas standards and policies is 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 integrated a 'Product Safety and Compliance' workspace into the Global Legal Sharepoint on our intranet which 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 2021.

Over the last several years, we have substantially contributed to the AFIRM 'Restricted Substances List,' which constitutes a harmonized restricted substances list across the industry. While the uptake of the list as an industry best practice matured further, a pilot for an assessment tool was launched in cooperation with international third-party laboratories in 2021, to evaluate the testing performance and accreditation level of the laboratories we work with. This approach will ultimately also be made available to other customers of the laboratories, such as 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.

## OWN OPERATIONS

Own operations refer to administrative offices, distribution centers, and production sites, and together with our own retail stores in 2021 equaled a coverage of 3,654,401m<sup>2</sup> of gross leased area (GLA). Similarly to our supply chain program, we focus on working toward decarbonization, enhancing the efficiency of water use, and aiming for higher waste diversion rates.

### 2025 Goal for Own Operations


# Climate Neutrality (CO<sub>2</sub>e)

Our efforts are underpinned by clear targets we have set. By 2025, we aim to achieve climate neutrality (CO<sub>2</sub>e) for both own operations and own retail stores. We will also continue to improve the water efficiency at our highest-consuming sites, aiming for a 15% reduction in water consumption per square meter for own operations, measured against 2019, while working to achieve a waste diversion rate of 95% at own operations. We aim to steadily increase our overall environmental performance data coverage and continue to push implementing eco-efficiency standards through a holistic integrated management system (IMS) at key sites. All of these efforts will support us on our way to achieve a 30% reduction of GHG emissions across our entire value chain by 2030, measured against the baseline of 2017.

- **Moving toward decarbonization:** We defined a clear roadmap to achieve our emission reduction targets, including measures such as implementing on-site renewable energy production, improving energy use efficiency, sourcing renewable energy,<sup>17</sup> and renewable energy certificates.<sup>18</sup> In 2021, we kept investing in own operations and offered Green Funds to subsidize local projects to improve energy efficiency as well as on-site renewable energy production. During 2021, we implemented 13 decarbonization initiatives that included, for example, three on-site solar renewable energy projects in Herzogenaurach and Moscow, and energy efficiency projects at distribution centers such as LED retrofit, HVAC (heating, ventilation, and air conditioning) equipment upgrade, and energy monitoring systems. In 2021, for the first time, we collected electricity consumption data for our own retail stores globally. Data coverage with primary data for own operations was 98%, and for own retail 21%. In 2021, total energy consumption across own operations globally was 512,050 MWh, equivalent to a total of 138,411 tCO<sub>2</sub>e (12,908 tCO<sub>2</sub>e in Scope 1 and 125,502 tCO<sub>2</sub>e in Scope 2), equivalent to 0.038 tCO<sub>2</sub>e/m<sup>2</sup> (25,731 tCO<sub>2</sub>e for own operations, 112,680 tCO<sub>2</sub>e own retail stores (including own showrooms)). We continue our transition toward renewable sources. 100% of our electricity consumption in Europe and North America comes from renewable energy sources in part supported by certificates for renewable energy.
- **Improving water efficiency:** In 2021, we invested in the installation of more efficient sprinkler systems, water submeters, and a wastewater segregation system at our headquarters in Portland. We will keep investing in water efficiency and wastewater projects in the coming years. In 2021, our water consumption at own operations totaled 0.128 m<sup>3</sup>/m<sup>2</sup>, and we achieved an accumulative water reduction of 34% compared to 2019.
- **Increasing waste diversion rates:** Data collection for waste streams and volumes contributable to adidas remains a challenge, as our offices are mostly located in shared buildings for which we do not have direct control over waste management. As of 2021, 74% of our own operations are monitoring and tracking waste. By the end of 2021, a total of 32,951t waste was generated and we achieved an accumulated diversion rate of 92% for own operations, measured against 2019.
- **Implementing sustainable processes:** The Integrated Management System (IMS) helps us to secure relevant ISO management certifications for key locations, such as environmental management (ISO 14001), health and safety management (ISO 45001), energy management (ISO 50001), and – introduced in 2021 and planned to obtain for 2022 – facility management (ISO 41001). adidas aims to further expand these certifications to more key sites through implementation of the standards and both internal and external audits, as these support us to achieve our energy, water, waste, and health and safety targets. As of 2021, 64 sites were certified for ISO 14001, 63 sites for ISO 45001, 327 sites for ISO 50001 (applies to locations with more than 50 employees or space exceeding 4,500m<sup>2</sup>).

<sup>17</sup> Renewable energy is accounted for with zero emissions.

<sup>18</sup> Decrease in emissions from electricity consumption in part as a result of the purchase of 'Renewable Energy Certificates.'

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- **Continuing Green Building certification:** 'Green Building' certifications are a key enabler to reduce carbon emissions and enhance resource efficiency in the construction of facilities. adidas has been using predominantly 'LEED' ('Leadership in Energy and Environmental Design') and 'BREEAM' ('Building Research Establishment Environmental Assessment Method') certifications for new construction and renovations for own retail stores as well as corporate facilities. As 'Green Building' certification is used for strategically relevant projects, a set of internal eco-efficiency standards have been implemented for all projects which mirror the priorities of the LEED certification. The ultimate goal is to achieve energy reduction through investment in high energy-efficient equipment and energy monitoring.
  - **Tracking occupational health and safety:** Health and safety, especially regarding the workplace and our people, has always been a priority at adidas. We ensure that our infrastructure, assets, and operations are compliant with the ISO standard 45001, by providing a safe, secure, and healthy work environment. Monitoring our performance closely helps us keep track of our progress and identify areas where we need to increase our efforts. We have implemented training and guidelines and scaled these through the entire organization. In 2021, we recorded zero fatal accidents (2020: 0), a Lost Time Incident Rate of 0.40 for employees (2020: 0.53), and 0.97 for external workforce (2020: 0.67), as well as a zero Occupational Illness Frequency Rate ('OIFR'). 

## SUSTAINABLE FINANCE

The challenges posed by the impact of climate change and social developments in our societies and supply chains are huge. Responding to these will require dedicated funding of sustainability initiatives. In this section of the report we provide an overview on our sustainability bond as well as on our approach to comply with the requirements of the EU Taxonomy that has the objective to channel investments in the right direction.

### SUSTAINABILITY BOND

In 2020, adidas successfully placed its first sustainability bond. Proceeds from the offering are used in accordance with our created Sustainability Bond Framework. adidas has committed to provide annual updates on the allocation of proceeds and the impact KPIs driven by the proceeds. ► [SEE TREASURY](#)

The following summary outlines selected environmental and social impact KPIs in accordance with chapter 7 'Reporting' of the 'adidas Sustainability Bond Framework.' The proceeds listed in the Allocation Report have contributed to these impact KPIs.

## SUSTAINABILITY BOND: IMPACTS

	2021	2020
<b>Eligible category: sustainable materials</b>		
Impact of investment or expenditure into using more sustainable materials		
Percentage of recycled polyester used for adidas apparel and footwear ranges <sup>1</sup>	91	71
Percentage of more sustainable cotton sourced	100	100
Number of pairs of shoes produced containing 'Parley Ocean Plastic'	> 17m	> 15m
<b>Eligible category: sustainable processes</b>		
Impact of investment or expenditure into improving our operations by establishing more sustainable processes		
Absolute annual CO <sub>2</sub> e Scope 1 and Scope 2 net emissions (in tons) in own operations <sup>2</sup>	138,411	— <sup>3</sup>
Number of buildings <sup>4</sup> of own operations holding certification for environmental management (ISO 14001)/health and safety management (ISO 45001)/energy management (ISO 50001)	64/63/327	42/39/53
<b>Eligible category: community engagement</b>		
Impact of investment or expenditure (on a global and local level) from actively supporting and positively impacting communities		
Number of funded ventures for 'Black Ambition,' a program that supports Black and LatinX entrepreneurs in launching start-up businesses	34	34
Number of grants for Black-owned small businesses as part of 'BeyGOOD,' an initiative aimed at bringing equity to those disproportionately impacted by social and racial injustice	— <sup>5</sup>	316
Number of scholarships granted to students at adidas' HBCU partner schools as part of adidas' 'United Against Racism' ambition	55	108

1 Percentage share of recycled polyester in 2021 excluding Reebok.

2 Own operations include administrative offices, distribution centers, production sites and retail stores. Excluding Reebok.

3 2020 data not comparable due to new and increased scope in 2021 (addition of retail stores). 2020 absolute annual CO<sub>2</sub>e Scope 1 and Scope 2 net emissions in own operations (administrative offices, distribution centers, production sites): 26,756 tCO<sub>2</sub>e, including Reebok.

4 At year-end.

5 Grants distribution for Black-owned small businesses as part of 'BeyGOOD' which is managed by a third party postponed to 2022.

## EU TAXONOMY

Over the course of 2020 and 2021, the EU has developed and issued the EU Taxonomy Regulation. In order to direct investments toward sustainable projects and activities that support the achievement of the EU's climate and energy as well as the 'European Green Deal' targets, the taxonomy has the objective to provide a common language and a clear definition of what is considered 'sustainable.'

The Delegated Regulation on Article 8 of the taxonomy specifies the content, methodology, and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments, or lending activities.

Based on the current publications, the main economic activities of our industry sector are not classified as taxonomy-eligible<sup>19</sup> with regard to the first two environmental objectives, climate change mitigation and climate change adaptation, as laid out in the Delegated Regulation on Climate. Details on the remaining four environmental objectives are expected to be published in 2022. Due to the first application of the EU Taxonomy Regulation, there are still considerable uncertainties with regard to the interpretation of its components. We are well aware of these circumstances and provide further details on the interpretation


<sup>19</sup> Taxonomy-eligible economic activity' means an economic activity that is described in the delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), Article 14(2), and Article 15(2), of Regulation (EU) 2020/852, irrespective of whether that economic activity meets any or all of the technical screening criteria laid down in those delegated acts. 'Taxonomy-non-eligible economic activity' means any economic activity that is not described within these delegated acts. For 2021, adidas is only required to report on the proportion of taxonomy-eligible and non-eligible economic activities of net sales, CAPEX and OPEX.



where necessary. Due to the timing and resources required to create the adidas Annual Report 2021, we have only reflected taxonomy-relevant publications issued before January 31, 2022.

For the year 2021, adidas did not identify any taxonomy-eligible turnover. However, adidas performed an analysis to identify the proportion of taxonomy-eligible (i.e., what has the potential to be classified as 'sustainable') operating expenses ('OPEX') and capital expenditure ('CAPEX') that can be linked to the first two environmental objectives with reference to the total values according to the EU taxonomy definitions. The taxonomy provides different definitions of the terms 'OPEX' and 'CAPEX' than what we are disclosing in this report.

- **'OPEX KPI':** The taxonomy definition of 'OPEX' including expenditure for research and development, short-term leases, maintenance and repair costs as well as other expenditure<sup>20</sup> results in a total value of € 692 million (denominator of the 'OPEX KPI') at adidas. In comparison to the disclosed € 21.234 billion of net sales and € 8.892 billion of 'OPEX' in this report, we consider the EU Taxonomy 'OPEX' value as insignificant with regard to our business model. Consequently, and in line with the regulation, we are not publishing the numerator of the 'OPEX KPI.' The information would not add significant value to the reader of this report, as, for example, our expenditure for research and development would not be considered taxonomy-eligible at this point. At the current stage, the numerator would only include activities such as the renovation of buildings and professional services related to the energy performance of buildings, etc. As a result of these considerations, we report an 'OPEX KPI' numerator value of € 0.
- **'CAPEX KPI':** In comparison to the disclosed CAPEX value of € 667 million in this report, the taxonomy definition of 'CAPEX' results in a total value of € 1.188 billion (denominator of the 'CAPEX KPI') at adidas. The denominator contains, in accordance with the definition of the EU Taxonomy and as disclosed in this report, additions to buildings, technical equipment and machinery, other equipment, furniture and fixtures, right-of-use assets, and other intangible assets, before depreciation, amortization and re-measurements. For the calculation of the numerator of the 'CAPEX KPI' we analyzed the additions and allocated them to activities listed in Annex 1 and 2 of the regulation, where eligible. In this process we conducted several control measures such as plausibility checks as well as reconciliations to avoid double-counting of additions. The numerator of the 'CAPEX KPI' amounts to € 604 million and mainly contains eligible expenditure in relation to leasing, the construction and the renovation of buildings, as well as the company car fleet, all related to the first environmental objective 'climate change mitigation' (Annex 1). Consequently, the 'CAPEX KPI' results in 51% of taxonomy-eligible and 49% of non-eligible activities.

Within our strategy 'Own the Game,' sustainability builds a strategic focus area and we are committed to pushing the boundaries going forward, which is reflected in the ambitious targets and numerous initiatives outlined in this report. 

<sup>20</sup> By 'other expenditure,' we mean expenditure for facility management services, i.e., expenditure relating to the day-to-day servicing of property, plant, and equipment.

## SOCIAL IMPACTS

Through our economic activities we create value and contribute positively to society. However, being a company of our scale and global presence, we also have a social impact on 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.

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 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 have fully embraced the need to undertake effective Human Rights and Environmental Due Diligence ('HREDD') across the entire value chain and have defined those areas and assessment processes that need to be evaluated and strengthened in preparation for the implementation of the 'German Act on Corporate Due Diligence Obligations in Supply Chains,' which takes effect in 2023.

We continue to support improvements in the ongoing and independent accreditation of our supply chain-facing social compliance program by the Fair Labor Association (FLA). We have also maintained our commitment to the 'Sporting Chance Principles' and our seat on the Advisory Council for the Centre for Sport and Human Rights.


As a sponsor, we have intensified our engagement with FIFA in 2021 over the hosting of the upcoming 2022 FIFA World Cup in Qatar, paying particular attention to stakeholder concerns over human rights and offering our support for the establishment of a Migrant Workers Information Centre. Separately, we have undertaken due diligence of our planned on-ground activation in Qatar and have mapped our supply chain linked to World Cup 2022 production. In the lead-up to the World Cup we have also consulted with FIFA over effective grievance mechanisms.


For the past five years adidas has partnered with the International Organization for Migration (IOM) through its 'Corporate Responsibility in Eliminating Slavery and Trafficking' ('CREST') initiative to implement responsible recruitment practices in the supply chain. Having identified Indonesia, the Philippines, Thailand, and Vietnam as the key sending countries for foreign migrant workers, in 2021 we provided targeted trainings for private recruitment agencies from these countries to raise their awareness on international standards on responsible recruitment and available certifications. The training was conducted in partnership with IOM, as part of our drive to increase overall awareness of ethical recruitment, improve recruitment fee transparency, and build capability and understanding of the 'International Recruitment Integrity System' ('IRIS'), the global standard for ethical recruitment. We commissioned the IOM in 2021.

Through our annual Modern Slavery Statements, annual progress updates, and other public disclosures, we have shared the actions we have taken to address forced labor in our global supply chain, documenting risks and remedies. 2021 also saw us partnering with the Responsible Sourcing Network for their 'Yarn Ethically and Sustainably Sourced' ('YESS') initiative helping to enable spinners and textile mills to implement effective due diligence to prevent cotton produced with forced labor. This initiative has been piloted in India and Pakistan.


We continued to receive external recognition for our approach to managing Human Rights. We maintained our leadership position on the 2021 'KnowTheChain' forced labor benchmark as the highest-scoring European company in the benchmark, and in the first ever 2021 Gender Benchmark developed by the World Benchmarking Alliance, we ranked in the top three international apparel companies. 

## 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. Inquiries 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. 

## 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 2021 we were not involved in the public policy regarding tax law or tax law changes in any of the jurisdictions in which we operate. ■

## 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 improvement of workers' welfare. We continued to uphold our standard manufacturing terms, including worker rights protection, and assisted key manufacturing partners in securing bank financing to help them weather the covid-19 crisis.

In 2021, covid-19 continued to impact all segments of society, including our manufacturing partners and especially workers in key sourcing countries in Asia: Cambodia, Indonesia, and Vietnam, all of whose governments, at various points in time, imposed government-mandated lockdowns to prevent the spread of covid-19. The longest lockdown occurred in Vietnam, where many stores and businesses were closed for three months by government order. In response to these challenges, we worked closely with our manufacturing partners to implement covid-19 safety measures and supported them in their vaccination drives, which resulted in high levels of protection for the workers. In Vietnam, we assisted with the supply of covid-19 testing kits and worked with the Vietnamese government, providing input to their guidelines and protocols for the safe reopening of the supplier factories, once the lockdown was lifted.


Ensuring business continuity and a functioning supply chain kept jobs, albeit sometimes with reduced working hours due to government-mandated lockdowns or temporary suspensions. We continued to be committed to ensuring legal compliance in terms of pay and benefits for all workers affected by operational changes due to covid-19 and tracked the working conditions in every manufacturing facility closely. Where we have seen downsizing, we ensured that laid-off workers received their legal severance and other entitlements in full. In 2020, we endorsed the International Labor Organization's ('ILO') 'Call to Action' to address the impact of the coronavirus pandemic on the garment industry, and throughout 2021 we worked closely with the International Organisation of Employers and the ILO Better Work program on the ILO-driven 'Call to Action' plans, with a special focus on social protection mechanisms. ■

### OUR APPROACH TO WORKING CONDITIONS IN OUR SUPPLY CHAIN



■ Our commitment to ensuring fair labor practices and safe working conditions in our manufacturing facilities 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 that is aligned with the Fair Labor Association's 'Workplace Code of Conduct' and the 'Principles of Fair Labor and Responsible Sourcing.' The standards form a contractual obligation under the manufacturing agreements we sign with our manufacturing partners to ensure workers are employed in fair, safe, and

healthy workplaces which are environmentally sound. Our standards follow 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 supply chain. 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 and 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 began a transition from our compliance benchmark ('C-KPI'), which is focused on management systems and supplier self-governance, to a new social impact KPI ('S-KPI'). The S-KPI measures a set of social indicators, such as accident rates, worker satisfaction, and worker empowerment. By 2025, we aim for having 70% of Tier 1 strategic suppliers achieve at minimum '4S,' and 100% of Tier 1 strategic suppliers achieve '3S' or better.
- **Transparency:** As part of our broader risk management processes, we will increase the scope and application of 'Human Rights and Environmental Due Diligence' ('HREDD') efforts. By 2025, we aim to have a system in place to identify and manage high risk human rights issues in 100% of our value chain. In conducting due diligence we seek to identify, prevent or mitigate potential adverse human rights or environmental impacts, with priority given to addressing the most severe impacts. In 2021, we have taken steps towards this ambition by working in partnership with our sourcing organization to enhance our mapping of Tier 1 manufacturing partners' sub-contractors. In 2022, we will build on these actions by assigning accountability to our key Tier 1 manufacturing partners for implementing their own due diligence efforts and will track their implementation via our S-KPI tool. This will include requiring them to commission social compliance audits in their sub-contractor facilities.
- **Fairness:** This concept focuses on responsible sourcing practices, gender equality, and pay equity, that support fair compensation for workers. By 2025, we aim for progressive improvement in compensation, measured by fair wage benchmarks across our strategic Tier 1 suppliers.<sup>21</sup> We also strive to achieve gender wage parity for workers and their supervisors in our strategic Tier 1 suppliers.<sup>22</sup> 

## RESPONSIBLE SOURCING PRACTICES

 In addition to regularly monitoring our supply chain to ensure compliance with the 'adidas Workplace Standards,' we invested time in 2021 to review our own purchasing practices. This was done to ensure that such practices were not negatively impacting our manufacturing partners' ability to comply with our standards, in accordance with adidas' 'Responsible Sourcing Policy.' Specifically, in 2021 we published adidas' 'Ten Buyer Commitments' and integrated them into our 'Responsible Sourcing Policy.' We trained more than a hundred senior leaders within our Global Operations department on this policy and our 'Buyer Commitments.' As a subscriber to the Better Buying Institute, we reviewed our 2021 'Better Buying Report' in detail and started internal discussions to further improve our program based on the report's feedback. Finally, we began working with the Better Buying Institute to develop an e-learning training on responsible purchasing practices, which will be deployed to a broader section of adidas' workforce in 2022. 

<sup>21</sup> The fair wage benchmarks include industry wages, minimum wages, and living wages. These benchmarks are set and tracked through a 'Fair Labor Association Fair Compensation Tool,' which has broad industry adoption and is being rolled out progressively to strategic Tier 1 supplier partners.

<sup>22</sup> The measurement of wage parity for production line workers and their immediate supervisors (i.e., line leaders) forms part of a broader gender strategy rollout to applicable Tier 1 strategic partners who complete self-assessments to identify and then close gender gaps in operating practices and procedures.

## GENDER EQUALITY

■ We aim to bring a gender lens to our key manufacturing partners' operations ensuring that all workers enjoy the same opportunities, rights, and obligations.

In 2021, we developed a guidance document for our manufacturing partners, 'Gender Strategy for Business Partners,' which will officially be launched in 2022, to help them develop and implement their own gender strategy within their operations. The guidance document not only references various laws and regulations related to gender equality and non-discrimination, it also highlights six focus areas for action: 'Respectful Workplace,' 'Compensation and Benefits,' 'Gender Based Violence and Harassment,' 'Voice and Representation,' 'Leadership and Skills Development' and 'Health, Safety and Well-being.' To complement our guidance, we selected six manufacturing partners, two from each region, to pilot the International Center for Research on Women's 'Self-Diagnostic Tool' that we plan to rollout across all suppliers in 2022 and 2023. This self-assessment tool helps suppliers identify the gender-based gaps in their operating practices and procedures, and creates the building blocks for the development of their own gender strategy, with supporting improvement plans. Once submitted, we will track each improvement plan to see that gaps are being effectively closed and policies and procedures updated to address the six priority areas for action. ■

## FAIR COMPENSATION

■ In 2021, we reviewed and updated our 'Fair Compensation Strategy' identifying five key levers that influence wages: legal obligations; responsible sourcing and purchasing practices; worker productivity; government involvement, and industrial relations.

Going forward, we will prioritize these five levers to influence wage improvements across our supply chain. To support that strategy, we are prioritizing increased tracking of wages and benefits-related findings and their accompanying remediation. As of June 2021, 96% of wages and benefits related threshold issues identified since the beginning of 2018 had been verified as having been remedied in full. Given the complex nature of many wages and benefits-related findings, it can take many months to address open issues in full. We do not characterize issues as 'closed' until the remedy has been verified as having been implemented completely and in a sustainable manner to avoid reoccurrence. As a result, these issues may take a longer period of time to be reflected as 'closed' in our compliance data management systems. In addition, we collected wage data from 50% of our key manufacturing partners in Southeast Asia (Cambodia, Indonesia, and Vietnam), which enable us to review/assess wage progression against credible and publicly available wage benchmarks. The three primary benchmarks considered are the World Bank's published poverty line, government-mandated minimum wages and living wages as defined by the Global Living Wage Coalition. ■


## MANUFACTURING FACILITY PERFORMANCE

■ We regularly assess our manufacturing partners 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.


Any cases of non-compliance identified during audits are given a clear time frame for remediation. Potential new manufacturing facilities are assessed in a similar way and orders can only be placed if approval by the Social and Environmental Affairs ('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 received through our grievance channels are reviewed and investigated, and the outcome is reported on our corporate website. Manufacturing facilities' 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 manufacturing facility inspections and external verification of our programs. Since then, our program has been accredited three times by the FLA.

According to the results of our assessments, 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 workplace systems or practices.

At the end of 2021, adidas worked with 509 independent supplier facilities<sup>23</sup> (2020: 520) that manufacture products for our company in 46 countries (2020: 49). These numbers reflect the stability of our supply chain and our strategy to form long-term partnerships with our manufacturing partners. 67% of our manufacturing partners' facilities (2020: 66%) are located in the Asia-Pacific region. The number of licensees we worked with increased slightly compared to 2020, with 60 licensees (2020: 56) that manufactured products in 418 factories (2020: 375) across 39 countries (2020: 37). 

## ONBOARDING

 In 2021, our primary focus has been on maintaining partnerships with our existing manufacturing partners rather than onboarding new ones. At the same time, several existing licensees have expanded their supply chains, to add to those of four newly onboarded licensees. Consequently, 2021 saw 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, conducted in 142 factories (2020: 112). Of these, 48 factories (2020: 31) 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 (86%) of all initial assessments were undertaken in Asia (2020: 94%), with China accounting for 42% (2020: 50%).

Overall, at the end of 2021, the first-time rejection rate of 34% of all new factories visited was slightly higher than in the previous year (2020: 28%). Providing focused support to those factories that we have onboarded, has aided us in maintaining a 'final rejection rate' of under 2% in 2021. The remediation of manufacturing facility issues prior to their onboarding 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. Manufacturing partners that have threshold issues are normally given three months to remediate those issues before being re-audited for final acceptance. 

<sup>23</sup> Independent supplier facilities refer to individual Tier 1 facilities (factories) of our manufacturing partners 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.

## SUPPLY CHAIN PERFORMANCE DATA

	2021	2020
<b>Onboarding: Worldwide rejections after initial assessment<sup>1</sup> for compliance reasons</b>		
Total number of first-time rejections <sup>2</sup>	48	31
First-time rejection rate	34%	28%
Total number of final rejections	2	2
Final rejection rate <sup>3</sup>	1%	2%
<b>Worker satisfaction</b>		
Implementation of 'Workers Voice' grievance platform at strategic manufacturing partners <sup>4</sup>	99%	98%
Satisfaction rate from workers who raised a grievance through 'Workers Voice'	71%	58%
<b>Trainings</b>		
Number of training sessions (fundamental, performance, advanced)	149	61
<b>Monitoring</b>		
Total number of audits (initial assessment, performance audits, environmental assessments) <sup>5</sup>	1,176	921
<b>Enforcement<sup>6</sup></b>		
Number of warning letters (first warning)	11	19
Number of warning letters (second warning)	2	3
Number of warning letters (third and final warning)	0	0
Number of business relationship terminations for compliance reasons	1	0

1 Every new manufacturing facility has to pass an initial assessment to prove compliance with the 'adidas Workplace Standards' before an order is placed. The data includes both initial assessments and initial assessment follow-ups, and from 2021, includes on-site and desktop assessments.

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 initial assessments but which were given a chance for a second visit.

3 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.

4 Strategic manufacturing partners are responsible for around 90% of our global production volume.

5 Total number of audits includes audits done in licensee factories. Performance audits conducted in approved factories that have passed the initial assessment (from 2021 onward, this includes on-site and desktop assessments). Environmental assessments include ZDHC wastewater test assessments according to the 'ZDHC Wastewater Guidelines.'

6 Includes warning letters issued by licensees excluding warnings to facilities 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.

## 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, manufacturing facility-based digital grievance channel for workers. We have progressively improved and expanded the use of this grievance mechanism and in 2021 more than 600,000 workers employed in 123 manufacturing facilities across 18 countries had access to this system, reflecting a 99% coverage of strategic manufacturing partners.

A robust grievance mechanism is the fulcrum on which workers can raise their concerns and secure remedies. Access to a digital complaint mechanism has proven invaluable during covid-19. Close to 52,000 human and labor rights complaints (2020: around 46,000) were filed with the facility management teams in 2021, with 99% of these complaints being closed by the end of 2021. The top complaints were related to concerns over general facilities, benefits, health and safety issues associated with covid-19, and communication.

Responses received through the 'Workers Voice' platform are 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 manufacturing facility and track how the facility's management and their HR teams resolve cases and communicate their findings. Our evaluation contributes to the facility's overall social compliance score ('C-KPI'/'S-KPI'). adidas provides ongoing capacity building to enhance the facility 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 to 71% in 2021. The increase in satisfaction is partly related to a significant improvement in the response time that it took the factory management to address workers' grievances, which decreased from 49 hours in 2020 to less than 16 hours in 2021 due to improvements in communication and transparency in the workplace. The management teams in the manufacturing facilities have continuously engaged with the facility's workers through e-newsletters and broadcast messages, which improved the workers' engagement and the overall company culture.

Complementing the various grievance channels, we expanded the 'Worker Pulse' project that was launched in 2020, which is a digitalized short survey to capture workers' perception and awareness of their labor rights on focused areas such as communication, harassment, and abuse, as well as grievance systems. It builds on what we learned from a previous survey process we initiated in 2016. In 2021, we undertook these digital surveys in 123 manufacturing facilities (2020: 63) across 16 countries (2020: 9), with more than 66,000 workers participating (2020: 22,000). The survey was conveyed to the workers through a mobile-phone-based application. 


#### WORKER PULSE SURVEY QUESTIONS: AVERAGE RESPONSES<sup>1</sup>

	2021	2020
If my friends or relatives are looking for a new job, I would recommend this factory.	85%	79%
If I have a complaint or suggestion, I am willing to speak up.	84%	78%
If I raise a complaint or suggestion, I think it will be treated seriously by management.	82%	77%
I feel comfortable talking to my direct supervisor.	84%	78%
My workplace is free from abuse and harassment cases.	84%	78%
I know what to do if I experience any abuse or harassment.	81%	75%

<sup>1</sup> The percentage figures indicate the average response on a five-point Likert type scale where 100% represents 'strong agreement' and 0% 'strong disagreement.'

 Significant increases in the workers' positive response rates were identified in all six of the survey's questions across all surveyed workers. This increase in the workers' general satisfaction rates is also a factor in the increase in the average C-KPI score for our manufacturing partners' facilities in 2021. This shows that when workers' voices are being heard and acted upon by the facility's management, it can have an impact in improving the overall working conditions within a manufacturing facility. Manufacturing partners are required to develop and track workplace improvement plans, based on the feedback received from the 'Worker Pulse.'

Alongside facility-led training, we have also offered tailored training under our 'Women Leadership Program,' first launched in 2016. However, due to the constraints imposed by covid-19, this training was initiated only in three countries (China, Indonesia and the Philippines) in 2021.

2021 also saw an expansion of our mobile-phone-based 'Digital Training' project, which was successfully rolled out in 43 manufacturing facilities across Cambodia, China, Indonesia, and Vietnam in 2020. 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 more than 62,000 workers who took part in 2021 (2020: 11,000), they averaged a score of 92 out of 100 in the post-test questions. 

## MANUFACTURING FACILITY ENGAGEMENTS AND TRAINING SESSIONS

■ In 2021, while our ability to physically visit our manufacturing partners continued to be constrained in some locations by the pandemic, in other areas during the year our ability to do so was restored. We used these opportunities to maximize the impact of our facility engagements and training sessions. Through a combination of on-site and remote, or virtual interactions throughout the year, we completed 373 individual facility engagements in 2021 (2020: 644), and 149 training sessions for manufacturing partners, licensees, workers, and adidas employees (2020: 61). Training sessions covered a broad range of topics, from our Workplace Standards, guidelines, and supporting policies, through to targeted training on specific labor, health and safety, and environmental topics. The number of trainings delivered also reflected our focused efforts this year to educate our manufacturing partners on Worker Empowerment projects and the launch of our new 'S-KPI tool.' Where virtual training sessions could be held, we continued to utilize this format to attract larger audiences, reaching a total of 5,321 people, up significantly from the 2020 figure of 1,497.

Wherever possible, we were also able to exchange multiple, shorter virtual interactions, with longer, and more comprehensive, on-site engagements. In addition to our continuous tracking of covid-19 impacts on our manufacturing partners' operations, we used these engagements to monitor remediation activities, KPI improvement plans, grievance investigations, and worker satisfaction surveys.

We continued to work with our licensee partners in 2021 to ensure that they were implementing adidas Workplace Standards into their manufacturing partners' operations in a consistent manner. As in past years, we co-hosted, along with five other brands, a joint 'Licensee Summit' in 2021, providing a forum for discussion on supply chain sustainability challenges and best practice sharing. In addition, we also enabled our licensees to access the Fair Labor Association's ('FLA') e-learning material, offering trainings devoted to Human Rights, Forced Labor, Responsible Manufacturing, and Worker Engagement, among other topic areas. Our team also continued to work within the FLA's Responsible Licensing Principles Working Group that is charged with developing standards that the FLA will use to evaluate its members' licensing and monitoring activities.

Since 2018 we have partnered with the International Organization for Migration ('IOM') to promote fair recruitment practices for foreign migrant labor employed by our Tier 2 materials manufacturing partners. In 2021, this engagement with 'IOM' resulted in a series of virtual trainings that were held with labor recruitment agencies in Indonesia, Thailand, Vietnam, and the Philippines – the main sending countries supplying most migrant workers to Taiwan. Taiwan has been a key focus country for our program. The online training sessions provided an overview of international standards and regulations related to recruitment fees and conveyed to the attendees adidas' zero tolerance policy with regards to human trafficking and forced labor. In addition, the trainings provided a framework for the recruitment agencies, to ensure that they are undertaking a framework implementing the required due diligence, to comply with both adidas' and international standards. ■

## MONITORING

■ We audit our manufacturing partners regularly against our Workplace Standards. In 2021, in addition to our own audits, we have expanded our use of assessments under the 'Social & Labor Convergence Program' ('SLCP'). As a signatory to the SLCP, we share its vision of industry collaboration and support its efforts to establish a robust methodology for the efficient collection, verification, and sharing of manufacturing facility compliance data. By using the SLCP's Converged Assessment Framework, manufacturing partners are able to share their verified assessments with buyers, thereby helping to reduce duplicative audit activity and facilitate collaboration among stakeholders. In 2021, we have accepted 142 SLCP assessments in lieu of our own Performance Audits. The SLCP, as an industry assessment tool, will continue to evolve as it is adopted more widely across the sector, and its methodology is strengthened. We are pleased to contribute to this evergreening and will continue to test

the tool in different supplier settings in 2022. As part of our ongoing evaluation, we will continue to provide this feedback to the SLCP and collaborate with like-minded industry partners in the pursuit of effective and impactful industry solutions.

With covid-19 continuing to place restrictions in some parts of the world on our ability to conduct our own on-site assessments in 2021, our monitoring approach had to remain agile to accommodate lockdowns and travel restrictions. Where possible, we continued to follow our regular on-site assessments, while also continuing the use of remote desktop assessments first piloted in 2020.

#### NUMBER OF AUDITS BY REGION AND TYPE

Region	Initial assessment <sup>1</sup>		Performance audit <sup>2</sup>		Environmental assessment <sup>3</sup>		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Asia	145	120	387	311	511	420	1,043	851
Americas	15	5	33	12	15	18	63	35
EMEA	8	2	40	20	22	13	70	35
<b>Total<sup>4</sup></b>	<b>168</b>	<b>127</b>	<b>460</b>	<b>343</b>	<b>548</b>	<b>451</b>	<b>1,176</b>	<b>921</b>

<sup>1</sup> Every new manufacturing facility has to pass an initial assessment to prove compliance with the 'adidas Workplace Standards' before an order is placed. The data shown includes both initial assessments and initial assessment follow-ups, and from 2021, includes on-site and desktop assessments.

<sup>2</sup> Audits conducted in approved factories that have passed the initial assessment (including on-site and desktop assessments as of 2021).

<sup>3</sup> Includes environmental assessments and wastewater test assessments according to the 'ZDHC Wastewater Guidelines.'

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

A total of 770 social compliance audits (initial assessments, performance audits, and SLCPs) were conducted in 2021 (2020: 624), 67 of which were conducted remotely. Of the 405 on-site Performance Audits conducted, 78% were carried out on an unannounced basis whereby the manufacturing facility is not informed in advance of the exact date of assessment. Our team continued to prioritize not only assessing our manufacturing partners' labor, health and safety, but also their environmental compliance. We established a new Environmental Assurance team in 2021 along with a dedicated set of environmental Zero Tolerance and Threshold Issues pertaining to a manufacturing facility's energy, water, and waste impact and environmental management systems (e.g., chemical, environmental, and wastewater management). Existing manufacturing partners are also being assessed against these environmental standards. In 2021, 204 facilities in 19 countries were assessed and evaluated to these environmental standards, which represented 181 of our key Tier 1 and Tier 2 manufacturing partners, and selected Tier 3 suppliers.

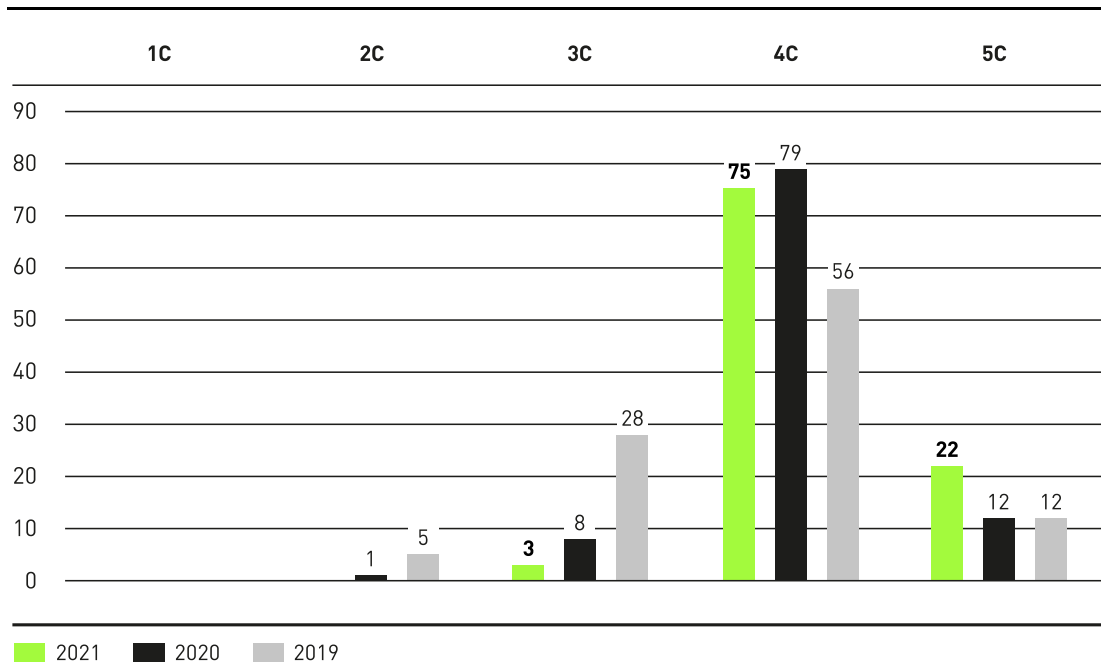
On top of these, in 2021, 78 self-governance audits and collaboration audits (2020: 88) were conducted. Under the C-KPI program, when a manufacturing facility reaches a compliance maturity level of '4C' or above, we empower the supplier to conduct their own self-governance audits and develop appropriate 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 increased from 278 in 2020 to 395 in 2021. This reflects the expanded supply base of some of our licensee partners, as well as the sharing of SLCP assessments with us.

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 233 in 2021 (2020: 251), with 741 assessments performed by third-party monitors (2020: 569).<sup>24</sup>

<sup>24</sup> Including social and environmental assessments, excluding ZDHC wastewater assessments.

- **Audit coverage:** A total of 54% (2020: 49%) of all direct and licensee facilities were audited in 2021. 'High-risk' locations in Asia, which is the most significant sourcing region for adidas, were the subject of extensive monitoring in 2021, with an audit coverage of 70% (2020: 64%). As a general principle, manufacturing facilities 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 2021, 97% of our key manufacturing facilities achieved a rating of '4C' or better (on a rating scale of 1-5 with 5 being the best). These ratings show that our key manufacturing partners have continued to strengthen their compliance performance, despite the headwinds created by covid-19. Some 22% of our key manufacturing partners' facilities have progressed even further, achieving a '5C' rating, which shows that they have mature social compliance governance systems and practices in place. At the end of 2021, we retired our C-KPI rating system for assessing social compliance in our key manufacturing partners. In its final year of use, and despite the pandemic, the C-KPI scores in 2021 were higher than in 2020. We believe our work on Worker Empowerment projects, and close engagements with our manufacturing partners in preparing them for the new impact-oriented S-KPI tool to be launched in 2022, has helped improve the C-KPI results in this final year. 🟢

#### SOCIAL COMPLIANCE PERFORMANCE RATING OF STRATEGIC SUPPLIER FACTORIES BY C-KPI RATING IN %



🟢 In 2022, we intend to strengthen our due-diligence practices and coverage by introducing new requirements to ensure that all key Tier 1 manufacturing partners take accountability in conducting annual social compliance audits at their sub-contractor facilities using adidas' authorized external monitors.

Of our key licensees, 100% achieved a Licensee Compliance Rating ('LCR') of at least 4 (on a rating scale of 1-5 with 5 being the best), and of these, 29% received a rating of 5. This rating mechanism mirrors that of our C-KPI applied to manufacturing partners and reflects that these licensees have successfully demonstrated that they have embedded strong governance systems, supply chain management, and

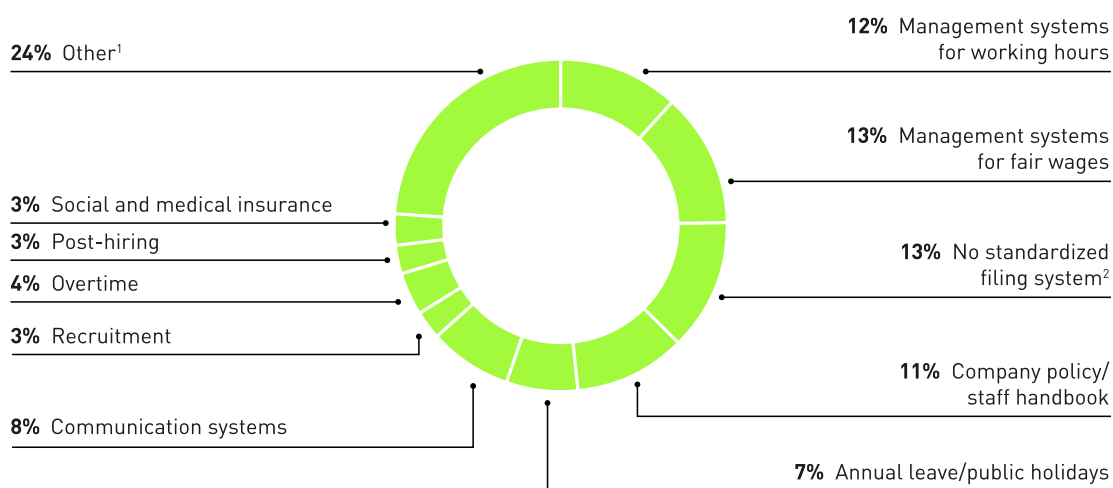
purchasing practices compliance requirements into their business practices. Licensees are also assessed on the existence of policies and systems to address stakeholder engagement, as well as levels of public reporting and communication. <sup>1</sup>

### NON-COMPLIANCES IDENTIFIED IN ACTIVE FACTORIES

<sup>1</sup> Our manufacturing partners' facilities 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, or 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 manufacturing partners' performance audits, collaboration audits, self-governance assessments, and, since 2020, SLCP assessments. We follow up on all cases of non-compliance and require our manufacturing partners to remediate open issues within a specified timeframe. The identified issues in 2021 remained largely the same as those reported in 2020.


- **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 facilities' 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 facilities, rather than the confirmed presence of a specific case of non-compliance.

### SHORTCOMINGS IN THE AREA OF LABOR IDENTIFIED DURING AUDITS IN 2021

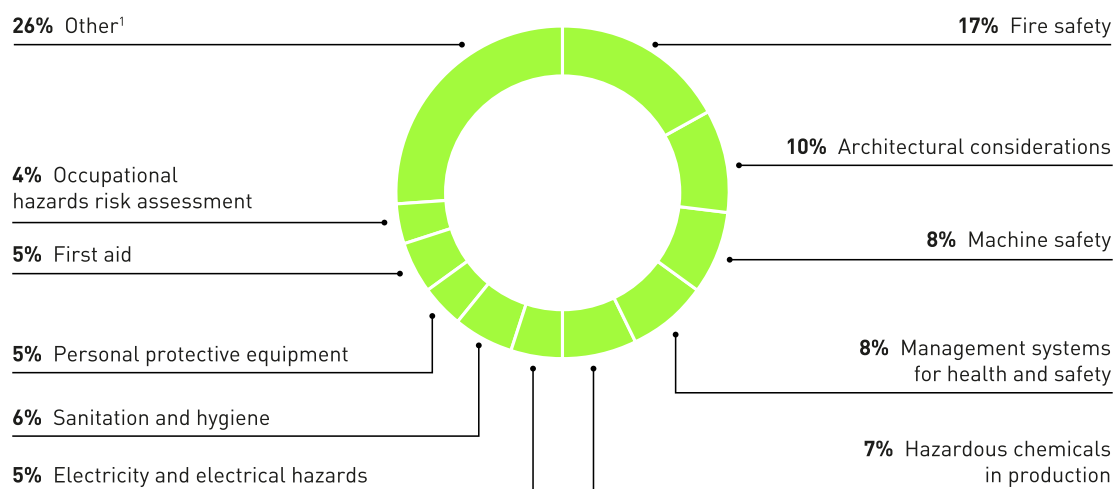


<sup>1</sup> 'Other' includes, for example, overtime/holiday rate and other benefits/allowances.

<sup>2</sup> 'No standardized filing' 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 manufacturing facilities and together accounted for 30% of the non-compliances identified in 2021. The way chemicals were stored and used, including the handling of hazardous chemicals, accounted for 7% 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. 

#### SHORTCOMINGS IN THE AREA OF HEALTH AND SAFETY IDENTIFIED DURING AUDITS IN 2021





<sup>1</sup> 'Other' includes, for example, material storage, housekeeping, or waste management.

#### REMEDIATION

 We follow up on all cases of non-compliance and require our manufacturing partners to remediate open issues within a specified timeframe. As an illustration of our efforts to support this remedy, in the period 2018 to June 2021, 95% of the threshold issues identified during our monitoring assessments have been verified as being remedied in full. A small percentage of issues identified over this period remain open, the majority of which were found during assessments conducted in 2020 and in the first half of 2021. While in many cases the actual issues will have been resolved, our approach is to only 'close' these in our systems when we have verified evidence of completion and established that corrective actions taken are sustainable and sufficient to avoid reoccurrence. 

#### INDEPENDENT FLA AUDITS



 The Fair Labor Association ('FLA') was able to resume monitoring coverage in 2021 by utilizing a variety of monitoring models (e.g., in-person, virtual, or a hybrid approach of both in-person/virtual), despite the ongoing challenges posed by covid-19. This resulted in adidas receiving four 'Sustainable Compliance Initiative' ('SCI') Assessments from the FLA in 2021. In addition to manufacturing facility monitoring, the FLA focused its efforts on enhancing virtual monitoring methodology; issuing specific country/topical guidance, supply chain mapping, grievance mechanisms; supporting company affiliates with their Fair Compensation Strategy; launching a new e-learning program for business affiliates' manufacturing partners; revising its third-party complaint mechanism; developing responsible termination guidelines; and continuing its work to measure and mitigate impacts of covid-19 on the industry's supply chain. 

## 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 manufacturing partners' facilities. We work closely with our manufacturing partners to help them improve their performance. However, where we face situations of severe or repeated non-compliance, we do terminate business relationships with facilities.

- **Warning letters:** In 2021, our close engagement with our manufacturing partners' facilities has helped reduce the number of active warning letters to 13 (2020: 22) across six countries. Compared to the previous year, the overall number of active first-warning letters decreased significantly, from 19 in 2020 to 11 in 2021; the total number of second warnings also decreased to 2 in 2021 (2020: 3). Manufacturing facilities 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 team. No third-warning letters (which result in manufacturing facility terminations) were issued to our manufacturing partners in 2021 (2020: 0).
- **Terminations:** In 2021, there was one instance of a termination of a supplier agreement for social compliance reasons (2020: 0).

# 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 Consolidated 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 Standards. The GRI content index can be found online. ► [REPORT.ADIDAS-GROUP.COM](#)

## DESCRIPTION OF BUSINESS MODEL

- [SEE GLOBAL SALES](#)
- [SEE GLOBAL OPERATIONS](#)

## ENVIRONMENTAL APPROACH

- More sustainable materials and circular services
  - [SEE SUSTAINABILITY](#)
  - [SEE INTERNAL MANAGEMENT SYSTEM](#)
  - [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISK AND OPPORTUNITIES, AND OUTLOOK](#)
- Water consumption (supply chain)
  - [SEE SUSTAINABILITY](#)
- Decarbonization (supply chain)
  - [SEE SUSTAINABILITY](#)
- Waste diversion (supply chain)
  - [SEE SUSTAINABILITY](#)

## PRODUCT RESPONSIBILITY

- Product safety and integrity
  - [SEE SUSTAINABILITY](#)

## EMPLOYEE MATTERS

- Rewards
  - [SEE OUR PEOPLE](#)
- Learning
  - [SEE OUR PEOPLE](#)
- Experience and engagement
  - [SEE OUR PEOPLE](#)
  - [SEE INTERNAL MANAGEMENT SYSTEM](#)
  - [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISK AND OPPORTUNITIES, AND OUTLOOK](#)
- Diversity, Equity, and Inclusion
  - [SEE OUR PEOPLE](#)
  - [SEE INTERNAL MANAGEMENT SYSTEM](#)
  - [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISK AND OPPORTUNITIES, AND OUTLOOK](#)

## CONSUMER MATTERS

- Membership
  - [SEE GLOBAL SALES](#)
  - [SEE INTERNAL MANAGEMENT SYSTEM](#)
  - [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISK AND OPPORTUNITIES, AND OUTLOOK](#)