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

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

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

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

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

ABOUT THE REPORT

SCOPE AND BOUNDARIES OF THE REPORT

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

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

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

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

DETERMINING MATERIALITY – HOW WE HAVE CHOSEN WHAT TO REPORT

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

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

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

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

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

PRIORITISING TOPICS IN THE REPORT

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

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

TARGET AUDIENCE OF OUR REPORT

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

VERIFICATION

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

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

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ABOUT OUR BUSINESS

OUR BUSINESS PROFILE

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

OUR BRANDS

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

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

OUR OWN OPERATIONS

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

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

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

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

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

OUR EMPLOYEES

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

See more details about our employees on page 57.

SHARE LISTING

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

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

SUPPLIERS

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

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

LICENSEES

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

CHALLENGES, VISION AND GOVERNANCE

THE CHALLENGES WE FACE

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

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

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

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

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VISION AND VALUES

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

PERFORMANCE, PASSION, INTEGRITY, DIVERSITY

These are the adidas Group values.

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

MANAGING RISK

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

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

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

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

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

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

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SOCIAL AND ENVIRONMENTAL AFFAIRS – ROLES AND TASKS

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

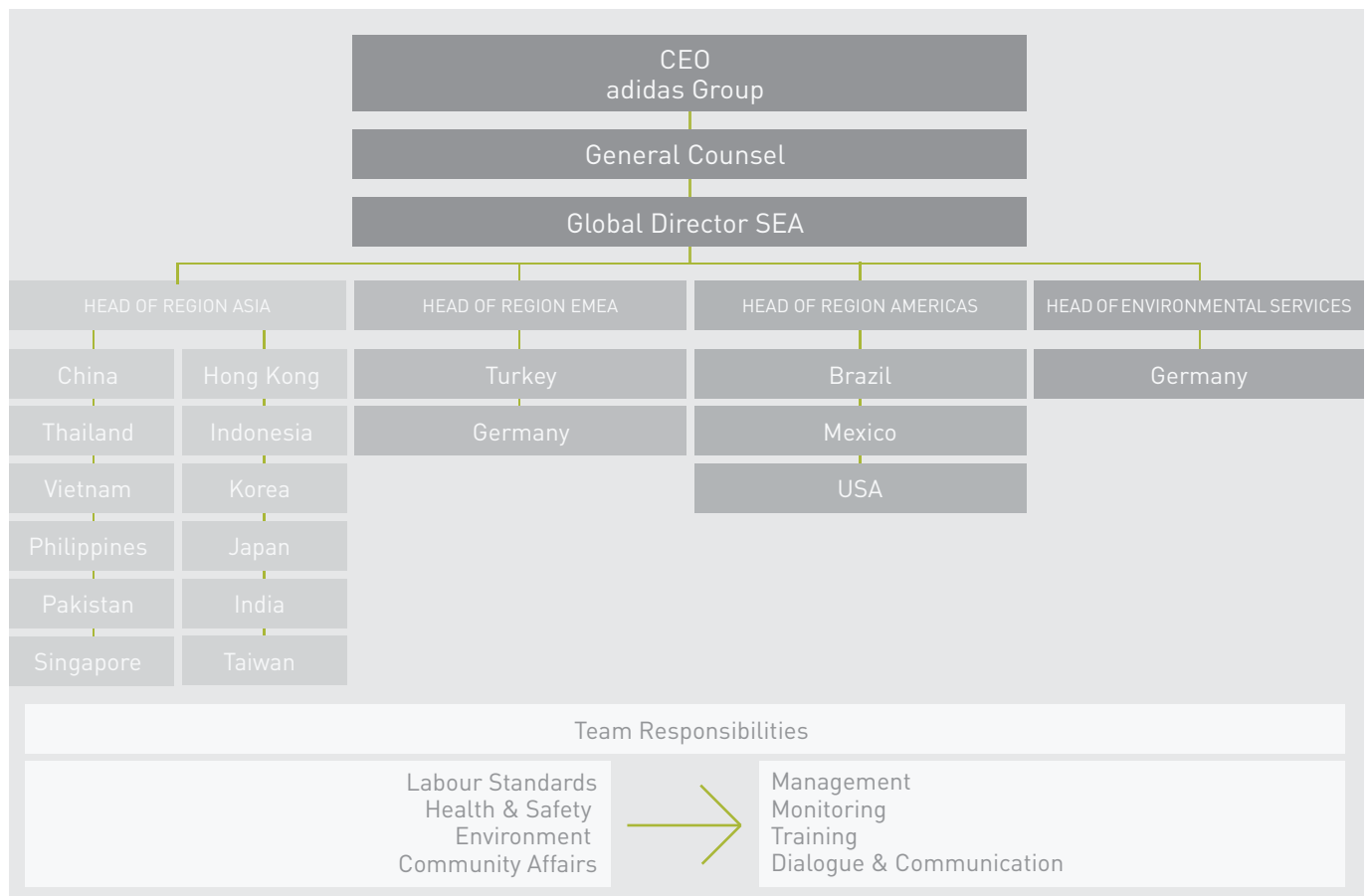
- Ensuring compliance with the *Workplace Standards* within the supply chain
- Leading, promoting and managing the development and implementation of environmental strategies across the Group's value chain
- Extending and maturing the engagement and collaboration with others to drive changes in the industry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

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

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

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

SEA team



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GROUP HUMAN RESOURCES

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

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

CEO STATEMENT

IN THE REAL WORLD PERFORMANCE COUNTS

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

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

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

2010 PERFORMANCE HIGHLIGHTS

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

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

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

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

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

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

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

LOOKING AHEAD

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

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

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

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

Thank you for your interest in our Sustainability Report.

Herbert Hainer
Chief Executive Officer, adidas Group

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MANAGING SUSTAINABILITY

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

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

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

ENVIRONMENTAL SUSTAINABILITY

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

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

Read more about the Environmental Strategy 2015 on page 18.

SOCIAL COMPLIANCE IN THE SUPPLY CHAIN

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

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

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

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

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

STAKEHOLDER ENGAGEMENT

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

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

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

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OUR EMPLOYEES

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

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

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

Read more about our HR programme on page 57.

COMMUNITY AFFAIRS

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

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

Read more about our Community Affairs programmes on page 64.

ENGAGING OUR STAKEHOLDERS

OUR STAKEHOLDERS

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

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

WAYS WE ENGAGE

We engage with our stakeholders in a number of ways:

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

OUR APPROACH TO ENGAGING WITH STAKEHOLDERS

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

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

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

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2010 ENGAGEMENTS

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

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

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

- Government outreach
- Sporting events
- Civil society.

GOVERNMENT OUTREACH

WAGE AND FREEDOM OF ASSOCIATION ISSUES IN CAMBODIA

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

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

GOVERNMENT ENFORCEMENT OF MINIMUM WAGES IN INDIA

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

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

COTTON IN UZBEKISTAN

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

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

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

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SPORTING EVENTS

PLAYFAIR CAMPAIGN AND THE LONDON 2012 OLYMPIC GAMES

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

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

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

INTERNATIONAL LABOR RIGHTS FORUM AND THE FOOTBALL STITCHING INDUSTRY

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

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

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

CIVIL SOCIETY

THE LEATHER WORKING GROUP/GREENPEACE CAMPAIGN ON DEFORESTATION

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

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

ESTABLISHING HIDE TRACEABILITY

Through a report issued by Greenpeace in 2009, we were made aware of the level of illegal deforestation in the Amazon rainforest caused by the increasing expansion of the cattle sector. The adidas Group and other companies such as IKEA, Nike, Timberland and New Balance responded to this report by working with Greenpeace and other NGOs to bring about improvements to the overall situation in the Amazon. We have channelled our efforts through the Leather Working Group. Our primary effort was to partner with the cattle and meat industry to develop a traceable and transparent system to provide credible assurances that leather used in adidas Group products is only from cattle raised on legally managed ranches.

The following decisions were made and actions taken:

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

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

VIEW FROM GREENPEACE

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

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

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

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

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

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

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

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

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

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

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WORKER RIGHTS CONSORTIUM – FIRE SAFETY IN BANGLADESH FACTORIES

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

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

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

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

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

TAKING ACTION

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

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

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

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

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

OXFAM AUSTRALIA AND INDONESIA

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

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

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

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

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

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

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

COLLABORATIONS AND MEMBERSHIPS

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

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

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

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