



# Policy on Modern Slavery

## comprising Forced Labor and Human Trafficking

### Overview

Modern Slavery is an umbrella term. For adidas it encompasses the risks posed by forced labor, prison labor, indentured labor, bonded labor, debt servitude, state imposed forced labor and human trafficking, where coercion, threats or deception are used to intimidate, penalize or deceive workers, thereby creating situations of involuntary work and exploitation. Modern Slavery may also be associated with the worst forms of child labor.

Forced labor, child labor, risks associated with migrant labor and the trafficking in persons, and other slavery-like practices, are issues which we have addressed in the past and continue to assess and address through our robust social assurance and labor monitoring programs, which were founded at the end of 1990s. Our focus continues to be on ensuring fair, safe and healthy working conditions for the workers who make our products in alignment with international standards and norms.

**We treat forced labor, human trafficking and slavery as zero-tolerance issues. Business relationships can be impacted if such issues are found** and can lead to enforcement action, warning letters and, if timely remedies are not offered, to termination.

### Supply Chain

Our supply chain includes transforming natural and synthetic materials into end-user products, such as garments, footwear or accessories. We have a [global and multi-layered supply chain](#), with different types of business partners. As a company, we also have non-trade based procurement, where we contract third parties for the supply of goods and services to support our general business operations around the world.

### Policies

Our highest level of policy commitment on human rights is our [Labor Rights Charter](#) which demonstrates our commitment to the United Nations Universal Declaration of Human Rights, owned and approved by the CEO. The Labor Charter applies to all our business activities and operations, including trade and non-trade procurement.

Our trade-related business partners are contractually bound by our [Workplace Standards](#) developed around the United Nations conventions on human and labor rights. As a founding and accredited member of the Fair Labor Association (FLA) these standards also comply with the FLA's Principles of Fair Labor and Responsible Sourcing.

The general principles in our Workplace Standards are explained through our supporting [Employment, Health & Safety and Environmental Guidelines](#), which reference international law, norms and industry best practice and offer advice to business partners on ways to prevent and mitigate impacts on human rights, human trafficking and slavery. These are reviewed regularly with the most recent update in 2017 to our migrant labor guidelines with the aim of ensuring that workers do not pay recruitment fees for securing their employment. In addition to updating our standards we are in dialogue with stakeholders and other brands towards building a



collaborative approach for addressing issues related to foreign migrant workers. We are focusing our efforts on the recruitment process involving foreign migrant workers by conducting on-site investigations which include interviewing migrant workers and hiring agency officials to get first-hand information on the hiring process and the recruitment costs involved in high risk countries and recruitment corridors.

In accordance with our Workplace Standards, business partners must not use forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise. No employee may be compelled to work through force or intimidation of any form, or as a means of political coercion or as punishment for holding or expressing political views. The Workplace Standards include a specific clause which reads:

*“adidas is committed to respecting human rights and will refrain from any activity, or entering into relations with any entity, which supports, solicits or encourages others to abuse human rights. We expect our business partners to do the same, and where there is any perceived risk of a violation of human rights to duly notify us of this and of the steps being taken to avoid or mitigate such a breach and, where this is not possible, for the business partner to provide for the remediation of the adverse human rights impact where they have caused or contributed to this. For the purposes of these Workplace Standards, human rights are a set of rights which recognize the inherent dignity, freedom and equality of all human beings, as expressed in the United Nation’s International Bill of Human Rights and in the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work.”*

To support our commitment to the fair treatment of the workers who make our products, including reducing pressures on working hours and ensuring the full and timely payment of wages, we have embedded within our business processes a number of [responsible sourcing and purchasing practices](#) including:

1. Costing policies that acknowledge the time taken and cost of labor to produce an item- i.e. Standard Minute Values
2. Buy Ready policy that avoids last minute changes in the development process
3. Effective forecasting systems enabling suppliers to plan effectively
4. Systematic dialogue with suppliers on their capacity that enables level loading during peak months
5. Strategic supplier programs developed for long-term business relationships. For our strategic partners, who account for more than 90% of global production, we have established social and environmental KPIs that assess the effectiveness of our suppliers’ management systems to protect labor rights, worker safety and the environment

For external business partners, such as licensees, we have developed a Responsible Sourcing Guideline that sets out our expectations.

## **Due Diligence Processes**

We have developed a due diligence approach that targets those high-risk locations, processes or activities that require the closest attention and where we can apply influence to mitigate or remediate issues, where they occur.

Our Employment Guidelines describe what constitutes non-compliances or bad practices and how these should be remedied, and provides examples of best practice and case studies. If serious breaches of the Workplace Standards are identified in a new supplier, they are not authorized to begin manufacturing of adidas products until they have demonstrated comprehensive and sustainable remediation of the issues. If evidence is found of human trafficking, slavery-like practices or child labor at a



prospective new supplier, they will be disqualified and the findings shared with relevant government agencies for their follow-up.

For our direct supply chain, where our monitoring staff identify specific non-compliance issues, including forced labor, suppliers develop corrective action plans to address them in a sustainable manner within a set period which are closely monitored by our team through follow up audits and progress is recorded in the Fair Factories Clearinghouse database.

We recognize that risks associated with modern slavery are potentially prominent in the upstream supply chain and we are therefore focused on targeted modern slavery trainings and capacity building programs for our Tier 2 suppliers thereby influencing ethical employment practices and providing them with the guidance to identify and remedy unscrupulous employment practices. Where we have found non-compliance issues such as the retention of identity documents of foreign migrant workers, clear and actionable plans to address these issues are developed with the suppliers. We have also conducted more comprehensive assessments of our Tier 3 raw materials suppliers, to identify and address risks of modern slavery.

## Risk Assessment

Risks are identified and managed through multiple tools and processes.

In 2016 we completed a risk-based mapping of our extended supply chain, i.e. those tiers that fall outside the mainstream coverage of our social compliance program and launched our modern slavery outreach program. We have publicly disclosed our due-diligence process and priority areas for engagement as part of this outreach program. In 2018 we provided a public update on the progress made by the end of 2017 as well as our approach for 2018-2020.

Additional in-depth assessments may be warranted depending on a new country we plan to source from, as took place prior to production commencing in Myanmar. A 2-year focused review was conducted to evaluate human rights and socio-political issues and risks and resulted in the adoption of new tools and approaches to prevent harm to rights-holders. Risks of modern slavery and other adverse human rights impacts have also resulted in the disqualification of certain countries, for example North Korea and Uzbekistan, as sourcing locations.

Due to concerns over systemic risks of forced labor or other forms of labor exploitation, adidas has restricted or prohibited sourcing from the following areas:

- Prohibited the purchasing of cotton from Uzbekistan aligned with our commitment to the Cotton Pledge, from 2011.
- Prohibited the purchasing of cotton from Turkmenistan aligned with our commitment to the Cotton Pledge and US Custom and Border Protection orders, from 2016.
- Prohibited the sourcing of finished goods or other products from PRC Special Economic Zones located along the Chinese-North Korean Border, from 2017.
- Prohibited the sourcing of products and materials from North Korea in accordance with US and international trade sanctions, from 2018.
- Prohibited the employment of North Korean workers globally, in accordance with US sanctions, from 2018.
- Prohibited any supply chain partner from entering into commercial agreements with military backed enterprises in Myanmar in alignment with the recommendations of the UN Fact Finding Mission, from 2018.



- Prohibited our Tier 2 material suppliers from sourcing cotton yarn from the Xinjiang region of China, from 2019.

For new supplier relationships, we have a well-developed pre-screening risk assessment tool which we call Initial Assessments (IAs) through which we evaluate prospective suppliers against a set of Zero Tolerance Issues and Threshold Issues. Zero tolerance includes prison labor, serious, life-threatening health and safety conditions and repeated or systematic abuse. Threshold compliance issues include serious employment issues, serious health, safety or environmental issues and any combination of the two.

Compliance Monitoring (CM) – key industry risks such as child labor, excessive hours, forced labor, freedom of association, health and safety, and women’s rights are already deeply embedded in our monitoring program, which seeks to uphold our Workplace Standards and supporting policies and guidelines.

We are aware that unregulated recruitment agencies increase the risk of forced labor. Whilst our targeted trainings and policies detail for suppliers our requirements for ethical recruitment, we recognize that we will need to do more to promote and enforce our Zero Recruitment Fees policy and have programs in place focusing on recruitment agencies in relevant high risk countries.

Our risk assessment cuts across all tiers of our supply chain and are carried out on a continuous basis relying on stakeholder engagement to inform our risk evaluation ranging from tailored engagements with specific stakeholder groups, with the investor community, through worker interviews, engagement with government agencies on human rights topics or responding to changing regulatory frameworks. These are all material considerations in our risk assessments.

## Measurement and Performance Standards

Internal and external audits are conducted at our suppliers’ factories to ensure they comply with our Workplace Standards. In addition to our own monitoring activities, we value unannounced assessments by independent third parties to demonstrate the credibility of and provide verified information about our program to stakeholders. As a founding and accredited member of the FLA we are subject to external unannounced assessments by independent monitors, participation in the FLA third-party complaint system and public reporting.

We require our strategic suppliers who make 90% of our product to develop rolling three-year Social Compliance Plans which are linked to formal Key Performance Indicators (KPIs) covering six primary areas:

1. management commitment & responsiveness
2. management systems
3. labor & industrial relations
4. compliance training for workers & management
5. transparency in communication & reporting
6. compliance performance

These assess the effectiveness of our suppliers’ management systems to protect labor rights, worker safety and the environment. Socially compliant suppliers are incentivized in the form of increased order volumes.

For our licensee partners and agents that manage our indirect supply chain, we use a score card that evaluates and scores a business entities performance in applying our Workplace Standards and associated guidelines.



For our modern slavery outreach program, we have clearly defined near term priorities including targeted modern slavery capacity building for our Tier 2 suppliers and developing collaborative models to address slavery like practices at the Tier 3 raw material sources. We also use outside benchmarks, managed by KnowTheChain and the Responsible Sourcing Network to track our performance in relation to our industry sector and the cotton supply chain, respectively.

Individuals, worker representatives and worker rights organizations, as well as other civil society groups, can access adidas' Third-Party Complaint Process, as well as the independently managed FLA Third Party Complaint Process or the OECD's Contact Point complaint mechanism, to bring issues related to the breach human rights directly to our attention. Additionally, workers in our supply chain have access to smart phone application based systems to anonymously lodge complaints and suggestions at manufacturing sites in real time.

## **Training and Capacity Building**

As part of our continuous efforts to achieve effective and sustainable practices within the supply chain, we have initiated a system of multi-level and cross-functional training and capacity building sessions with our global supplier network.

All new employees are given induction training to familiarize them with adidas policies and procedures, including our Workplace Standards. Focused '*sustainability and modern slavery*' sessions are delivered at each corporate induction day at our key global offices. Our global legal teams have received formal briefings on the application of the UN Guiding Principles on Business and Human Rights and the corresponding human rights requirements detailed in the OECD Guidelines for MNCs, as well as commitments to identifying and addressing the risks of modern slavery in our business. Legal officers in the United States and United Kingdom are responsible for ensuring compliance with disclosure requirements under the relevant modern slavery and human trafficking legislation.

We have designed targeted modern slavery training modules in partnership with United Nations agencies and disseminated these throughout our Tier 2 supplier network in hot spot countries (i.e. countries identified as high risk for slavery practices) providing suppliers with the guidance to identify and remedy unscrupulous employment practices including influencing the ethical hiring and treatment of foreign migrant workers. Our strategy involves training selected Social & Environmental Affairs staff who manages our day-to-day labor monitoring program, to become modern slavery experts. This complements their many years of experience in investigating forced labor and migrant labor cases in the supply chain.