

# About this document

This document contains the sustainability content on our website from when we launched our 2005 social and environmental report 'Connected by football' in March 2006. This year, we shortened the length of our printed report and expanded what we published online. We recognise that there may be some readers – we imagine them to be CSR professionals – who wish to have hard copies of all the information we publish about our social and environmental performance, including what we publish online. To meet that need, we have created this document, which contains almost all the content from the Sustainability section of our website. It is designed to be read as a hard copy not online.

## Sustainability

For adidas, being a global leader in the sporting goods industry means improving working conditions in our suppliers' factories and reducing our environmental impact as a business. It also means we have to rise to the challenge of managing, supporting and developing 15,935 employees in more than 80 countries as well as responding to the needs of the communities where we operate.

Our latest social and environmental report, 'Connected by football' is now available. We also have additional content on our website at <http://www.adidas-Group.com/en/sustainability/welcome.asp>. Let us know what you think of our reporting by emailing us at [sustainability@adidas.de](mailto:sustainability@adidas.de).

Read an overview of our social and environmental programme.

# Overview

This is an overview of our social and environmental programme including an introduction to our code of conduct. We also describe some of the challenges we face in being a responsible business, and how we are responding to those challenges. Publishing our progress in meeting our annual targets gives stakeholders a sense of what we have achieved and where we need to do more. Our commitment to being accountable means we also list our targets for the current year. The glossary explains some of the terms we use.

## Our standards

The adidas Group has business relationships with manufacturers in many countries around the world. Outsourcing our production in no way absolves us of moral responsibility for the way our products are manufactured and the conditions they are produced under. Recognising this responsibility led us to create a set of guidelines for our suppliers that set minimum social, environmental and health and safety standards we expect them to achieve. We call this our Standards of Engagement (SOE).

Based on International Labour Organization conventions, the SOE describe clear rules of conduct for issues such as safety in the workplace, child labour, and hours of work. By monitoring compliance with the SOE, we can identify potential problems in contract factories and help our suppliers implement positive changes. If they fail to do so, we will terminate our contract with them. This however is always the last option we take from a range of other remedies. In short, the SOE are a tool we use to select and retain only those suppliers whose workplace standards are consistent with our values.

The full Standards of Engagement are available on our website.

## Challenges and responses

### Global brands – Global visibility

Just as football is a global game, so is adidas a global business: we have offices in more than 80 countries and more than 40 nationalities represented among our staff at the Group's headquarters. We enjoy a 15% market share of the global sporting goods sector. We source products from 59 countries. In short, our brand is visible all over the world. Current developments that further increase our visibility are:

- The 2006 FIFA World Cup™ in Germany. This will draw even more attention to the adidas Group with millions of people watching the games and thousands of people visiting our home country. And adidas will be there at every game, in the shape of the Match Ball and team kits. From a social compliance perspective, managing this increased visibility is a challenge, as we know from issues raised at previous World Cups.
- The acquisition of Reebok will increase our presence and influence in the international sporting goods business.

- As ever, the way we manage our supply chain is under scrutiny. The end of the Multi-Fibre Arrangement, the consolidation of the supply chain, and the social impact of our sourcing strategy have drawn increased attention from various stakeholders.

Being a highly visible brand that operates in a dynamic competitive environment and sources from a multi-layered supply chain poses specific challenges. We now present those challenges and our responses to them. In the Progress against targets section we provide a more specific summary about our successes and failures in 2005.

### Challenge: Building credibility and trust

Some stakeholders have concerns about the credibility of an internal supply chain monitoring programme. The major point of criticism is the independence and impartiality of such programmes. Adverse impacts on working conditions, such as peaks in working hours, may be caused through our own sourcing patterns. The fact that more products are sourced from countries where freedom of association is legally restricted raises further concerns for some stakeholders.

Therefore they argue that we can make only limited progress in improving working conditions. In turn this leads to stakeholders' requests to become transparent in our compliance programmes and to involve third parties in the investigation and verification processes.

Which third parties should we engage? What key performance indicator is useful? What should we report to be more credible?

### Response: Approach to transparency

#### Transparency, disclosure, and collaboration

We value transparency and stakeholder feedback. We report annually on our compliance work including the location of our suppliers globally. We also submit our programme to evaluation, accreditation and public reporting by the Fair Labor Association. Moreover, we continue to practice full disclosure to researchers, trade unions and other concerned NGOs, based on their specific requests. For example in 2005 factory names and addresses were disclosed to several local union affiliates of the

International Textile, Garment and Leather Workers Federation and a workers right group in Indonesia. The addresses of US collegiate licensed suppliers were also disclosed to the Universities of Wisconsin, Northwestern, UCLA, and the Collegiate Licensing Company. In Europe we have disclosed all of our main factories, as well as relevant sewing sub-contractors to this project, to the steering committee of the multi-stakeholder Jo-In Project in Turkey.

To track factory compliance performance and to support supplier selection and retention by our sourcing organisation, we have developed a new Key Performance Indicator (see below).

### **Working with others**

We are involved in many multi-stakeholder initiatives because we believe that working collaboratively can create lasting change in workers' conditions. In 2005 for example we have expanded our engagement with third parties such as NGOs and government departments both at a country level and on a factory by factory basis. Worker-management communications, freedom of association, and dispute resolution were a feature of this work, particularly in Asia, Central America and Eastern Europe.

### **Improving how we measure suppliers' performance**

In response to concerns voiced by our stakeholders, we launched a new way to measure how well our suppliers are complying with our standards. The new Key Performance Indicator was introduced at a global supplier forum in April 2005. We now measure how effective suppliers' activities are at delivering safe and fair workplace conditions.

For more on this, see the Suppliers and workers section. For more about transparency, see the Stakeholders section.

## **Challenge: Meeting shareholder rights**

As a publicly listed company adidas-Salomon AG is obliged to fulfil defined shareholders' rights related to business information.

Shareholders and representatives of the financial community nowadays request more detailed information about the Company and how the business is managing risk. Corporate reporting aids, such as the Global Reporting Initiative, have been developed to promote corporate transparency and disclosure. Increasingly, publicly listed companies are rated against transparency benchmarks.

## **Response: Corporate Governance and risk management**

To effectively and responsibly manage risks and challenges, standards of good corporate management are important. 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. 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. 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 that have been approved by the Board supported the development of business contingency plans and staff advisories for public health issues like avian flu.

For more information on corporate governance, see the Investors section of our website.

## **Challenge: Managing an external supply chain**

Our supply chain is large, multi-layered and complex. It comprises many different suppliers that can be categorised in four groups: main factories, subcontractors, material suppliers and licensees.

Outsourced production is not without its risks. We have less direct control over suppliers' operations or workplace and environmental conditions at their factories than at company-owned sites.

### **Not enough capable managers**

We have a code of conduct, our Standards of Engagement, which guide our suppliers on achieving acceptable working conditions. Our efforts are directed at addressing the root causes of problems and helping factories to improve by developing and running their own management and governance systems. To operate and maintain these, factories need capable people who are trained, competent and experienced. Within our major sourcing countries we have found that there is a very limited supply of skilled middle managers with health & safety and human resource management skills, and where there are capable people, turnover rates are high.

### **Peak demand stretches suppliers**

Another risk is in managing FIFA World Cup™ product demands and peak production loads in a limited base of suppliers, and the expansion of football stitching centres. Also, marketing and promotion campaigns for major events such as the FIFA World Cup™ often include specialty and give-away items, which are ordered through agents who operate outside of our main supply chain.

We are a successful company. And that success is measured in the demand for our products. Our business is growing, as is our supply chain. To manage this expansion we are entering into licensing arrangements with specialty firms, supporting

investment and green field development by our existing business partners, who are building new factories, and finding new suppliers to fill orders for each local market.

For more, see the Suppliers and workers section.

## Response: How we work with suppliers

Our strategy is based on a long-term vision of self-governance for our suppliers and focuses on:

- supporting business partners in their efforts to establish effective human resources, health & safety and environmental management systems
- building capacity within the workforce and the management of our supply chain to ensure fair and safe working conditions
- raising environmental awareness and promoting best environmental practice, and
- expanding our interaction with local worker organisations and NGOs to better understand working conditions in places where our products are made.

We act as both inspectors and advisors, assessing management commitment to our Standards of Engagement but also training our suppliers on the key issues. We use a new Key Performance Indicator to measure the effectiveness of actions taken by suppliers and we also provide training materials, such as our recently-launched Sustainable Compliance guidelines, to help suppliers understand what is needed from them to achieve self-governance.

We are extending the contractual obligations of those agents and licensees who operate outside of our main supply chain to include compliance with our SOE.

For more, see the Suppliers and workers section.

## Challenge: Being competitive and customer-focused

Football players insist on using boots that perform well in all conditions. The same goes for the adidas Group: we need to be flexible and to perform at our best to thrive in the highly competitive sporting goods market, with its ambitious new players, and constant product innovations.

Shorter product cycles and the demand for more individualised products are specific challenges that not only affect marketing strategies but also our sourcing models. We are also expanding into markets that are more seasonal, for example lifestyle and fashion.

Cost-effective product manufacturing and distribution are further imperatives. To remain competitive, we have outsourced production to countries where product costs are less. Interestingly, the emerging countries from which we source are themselves developing into major consumer markets for our products.

The line between export producers and local or domestic manufacturers is becoming blurred.

### Managing uncertainty

External factors such as the price of oil or the end of the Multi-Fibre Arrangement (which set quotas for textile imports) require both our sourcing strategies and suppliers to be very adaptable. The transitional period, as the EU and the US governments negotiated new textile quotas, created a great deal of uncertainty in the industry. With the potential imposition of embargoes on certain categories of product and concerns over safeguarding the delivery of products for the FIFA World Cup™, the Company decided to transfer the production of eight million individual items from China to other sourcing countries.

### Response: Competing responsibly

We believe that the values and principles we share with our business partners positively impact business and the life of people making our products. We communicate these values through our Standards of Engagement (SOE), the Group's code of conduct. The SOE are based on the International Labour Organization (ILO) and UN conventions relating to human rights and employment practices. They follow the model code of conduct of the World Federation of Sporting Goods Industry.

### Integrating standards

The SOE form a fundamental base of our relationships with our suppliers and are a contractual obligation. Before suppliers can become authorised business partners, they must be able to show how they comply with our SOE. But this is not the end point. We want to see our suppliers integrating the standards fully in their management and decision-making process, and finally moving towards a system of self-governance.

The results of supply chain compliance performance must inform the Group's operations team and other supply chain decision makers. The SOE is an integral part of the Global Operations cumulative factory rating system and ensures that customer demands and competitive advantages are achieved in a responsible environment.

The Social and Environmental Affairs team is tasked to ensure supply chain compliance with the SOE and manage wider corporate responsibility activities of the Group. The team is led by three regional Heads and the Global Director who reports to the General Counsel and the Executive Board of the Group.

The SEA team collaborates closely with the Global Operations group, which is responsible for developing and sourcing products from suppliers.

For more, see the Mission and values section.

## Challenge: Sustainable products

Sustainability poses a number of challenges for our innovation and development teams as well as manufacturing partners. The goal is to achieve a balance between various demands: the products must not only be competitive in function and price, but also safe (during use and after disposal) as well as environmentally friendly. Manufacturing needs to be done with the least environmental impact without compromising quality.

## Response: Being environmentally responsible

Reducing pollution with so-called end-of-pipe solutions offers only limited environmental benefits, so we strive to design out environmental problems by rigorously applying the following principles:

- Compliance with all legal local laws and regulations
- Apply best practices at own sites and operations
- Product materials and components to be non-toxic and safe
- Promote environmental management systems and best practices in the supply chain, where major environmental impacts occur.

We constantly review and update our material policies and requirements, and so meet regularly with other companies, organisations and scientific institutes to learn about new developments. In 2005, for example, we attended a workshop arranged by a leading environmental NGO in Europe with representatives of brands from various fields. The workshop aimed to review existing interactions between business leaders and NGOs and set a course for a new, more fruitful relationship in the light of the challenges everyone faces in the global marketplace.

We also enhanced our approach to measuring the environmental impact of our operations. We did this by maturing the environmental metrics system established by our footwear suppliers in Asia and finalising the concept of Integrated Product Policy (IPP) for selected football boots, as described in the environment chapter. This has helped us identify major environmental impacts and priorities for action.

For more see the Environment section.

## Challenge: Managing and developing our people

Being a global player in a disparate and constantly changing world creates complex challenges with regard to the management of our employees. Our HR strategy therefore has to:

- embrace diversity as a stimulus rather than a restriction
- monitor demographic changes and respond with the appropriate recruitment and retention strategy and work-life balance initiatives
- mirror the global marketplace with a multinational workforce and, promoting mobility that complies with different local laws and incorporates cultural differences
- listen to our employees, understand their needs and motivations and help them to realise their full potential.

## Response: Making adidas the place to be

The success of the Group is a direct result of the commitment and talents of people who work for us. We want to create the best and most productive workplace in the industry by:

- creating a working environment that stimulates team spirit and passion, engagement and achievement
- instilling a performance culture, based upon strong leadership
- fostering an understanding of social and environmental responsibility for the world in which we live – for the rights of all individuals, and for the laws and customs of the countries in which we operate
- providing a secure working environment.

## Challenge: Developing a global approach to community programmes

Developing a direction and strategy for Corporate Giving and other Community Involvement activities at a Group level was one of our major ambitions last year.

Our subsidiaries and Group entities manage programmes at a country level, as they know the local communities and cultures best. However, this decentralised management meant that there were no shared criteria for choosing which organisations to support.

## Response: Policy direction and delivery

In 2005 we established the Community Affairs function at headquarters as part of the Social & Environmental Affairs team. And by working with a network of people from adidas Group entities around the world, we have established a set of Corporate Giving Guidelines that we are applying at headquarters. During 2006 we will test the global application of these guidelines by all our Group entities.

For more see the Community affairs section.

## Progress

As we aim to become a sustainable business with self-governing suppliers, we set ourselves annual targets. We have reported progress against these annual targets for six years now and see this as a crucial step in being accountable to our stakeholders.

The four sections below list our targets for 2005 and describe our progress in achieving them:

- Management targets
- Suppliers targets
- Environment targets
- Finance targets.

**Management targets 2005**

<b>Targets</b>	<b>Progress</b>	<b>%</b>
To conduct a global staff survey, identifying the internal perceptions of the SOE programme and performance.	A survey was drafted and will be issued to employees of the adidas Group in January 2006; summaries of survey findings will be reported on the website.	25
To use the results of the HIV/AIDS pilot project (adidas Thailand) in the development of a globally applicable policy.	A Group level policy was drafted that contains general guidance, an employee guide for those who are HIV-positive and guidelines for managers on workplace care and support. The policy draft is under review as to its global applicability.	50
To incorporate the new five-star factory rating into the Group's factory performance reporting system.	The rating was completed and integrated in the new Key Performance Indicator (KPI). A desktop KPI rating was completed for all suppliers by the end of 2005 and used in risk profiling and SEA work planning for 2006. KPI rating based on actual audit visits will be completed in 2006 for all main suppliers.	75
To achieve a consistent roll-out of key programmes (Fit for Gold, Global Salary Management System) globally for the adidas Group.	We implemented the Global Salary Management System (GSMS) as well as Fit for Gold in Europe, USA and all global functions; Asia Pacific has implemented Fit for Gold but GSMS will follow in 2006. America will be covered in 2006.	75
To involve at least four out of our seven key HQ locations worldwide in our work-life balance initiatives and further promote active diversity management.	We involved all main group locations in our global Diversity Statement roll-out and have achieved active involvement, especially in adidas America and TaylorMade adidas Golf.	100
To increase the percentage of the global workforce covered by our HR Information System and add intelligent functionality.	The Human Resources Information System (HR-IS) was rolled out in America. This included the online function for the Personal Evaluation and Planning process (PEP), the Long-Term Incentive Programme with intelligent applications and the HR-Inventory system.	100
To implement a corporate protocol for company giving.	Corporate Giving Guidelines were developed and issued. A reporting mechanism was developed to capture community involvement activities at a local level and to enhance transparency.	100

**Suppliers targets 2005**

<b>Targets</b>	<b>Progress</b>	<b>%</b>
To distribute and communicate sustainable compliance guidelines to suppliers.	The general intent of the guidelines was communicated to all international suppliers in April 2005 and launched at a country level through a series of formal briefings sessions. Feedback from these sessions was incorporated into the final version of the guidelines distributed to key suppliers in December 2005.	75
To participate in the development and execution of at least four pilot projects to improve worker-management communication and conflict resolution.	<ul style="list-style-type: none"> <li>• We participated in the FLA Strategic Project in China developing grievance and disciplinary procedures.</li> <li>• We also participated in the FLA Central America Project that trains administrators from factories, free trade zones and regulatory agencies in practices for hiring, firing, grievance and discipline.</li> <li>• In Turkey we continued our involvement in the Jo-In project, a multi-Stakeholder initiative.</li> <li>• We also evaluated the impact of an adidas worker-management communication project that we ran in 2004 in Turkey and provided further training to the same factories.</li> <li>• We participated in a process focusing on the improvement of worker-management dialogue in the Romanian apparel industry.</li> </ul>	100

**Suppliers targets 2005 (cont)**

Targets	Progress	%
To distribute worker-management communication guidelines and associated training to suppliers.	A number of workshops and meetings were conducted in Asia including large-scale management training sessions on industrial relations and dispute resolution. We have also developed training materials and inserted basic guidance about worker-management communications and functions of committees in the Sustainable Compliance Guidelines. However, we still do not have a comprehensive strategy or Guideline for addressing this issue.	25
To continue the SEA-Lean Project by identifying Lean benchmarks that can measure working conditions and to increase SOE transparency through joint SEA-Lean monitoring.	The academics' project (phases 1 and 2 working hours, wages, stress, ergonomics and fatigue) was completed at the end of 2005. Lean data points for measuring working conditions are identified and a data collection worksheet has been completed.	50
To meet the targets set out in our obligations as a participating company in the FLA and to participate in the FLA strategic monitoring project in China.	SEA programme was accredited by the FLA in May 2005. Active participant in the Strategic Monitoring Project in China. This was subsequently folded into the FLA 'Soccer' project, with five adidas suppliers in China and Thailand participating. Independent External Monitoring obligations were met in full.	100
To develop HSE management system guidelines for small and medium-sized suppliers and to finalise and introduce to strategic business partners HR management systems and training modules.	The structure of the HSE Management System guidelines has been developed. Content will be finalised in 2006. Both participating suppliers in the SME HSE management system pilot project have passed the certification audit.	50
	In relation to the HR management system, the foundation for the project is established. The roll-out in China commenced December 2005. Roll-out in other key countries will commence in Q3 and Q4 2006.	75
To provide training based on the work ergonomics guide developed in 2004.	The Ergonomics Guideline was completed, but on review it was decided that it needed simplifying further before being issued to suppliers. No training was therefore delivered.	25
To report on the progress of occupational health doctors' training.	The occupational health doctors' training for three sourcing countries – China, Indonesia and Vietnam – has been completed. A follow-up audit found a general improvement in clinical services.	100
To conduct at least six worker dialogues, and other engagements for social programmes.	Asia: 1 worker dialogue held in China, two worker dialogues postponed to 2006. Americas: 1 worker dialogue in Honduras, 1 in El Salvador postponed until 2006. Two engagements for social programmes (MSI in Honduras, Center for Corporate Citizenship Boston College) completed.	50
To transfer the experiences from the MSI project in Vietnam to other regions.	A needs assessment was conducted in China for a parallel MSI project; a meeting is scheduled for 2006 with MSI, Oxfam and other potential project partners to discuss the project framework and next steps. Preliminary discussions with MSI UK regarding HIV-AIDS projects in Honduras.	25

**Environment targets 2005**

<b>Targets</b>	<b>Progress</b>	<b>%</b>
To report on progress in applying the IPP system and tools for selected football boots developments.	The IPP pilot project was finalised and a stable calculation scheme was developed for gathering, processing and comparing environmental data of products from the 'cradle to the grave'; tools and process were field-tested on a new football model to review their applicability as decision-making instruments.	100
To implement the use of recycled rubber as policy for all our suppliers if test products using recycled rubber waste do not show any quality problems.	Footwear styles containing recycled rubber components caused no quality problems, but currently recycled rubber cannot be used with certain colours and shoe designs. Enhancement of the technical process is in progress.	75
To provide training sessions to 15 footwear suppliers on the Guide to Best Environmental Practice focusing on energy saving and waste management.	Training to footwear factories was focused on further improving the accuracy of environmental indicator systems. In-depth studies on waste management systems were conducted. Supported by an environmental consultancy, we assessed what is needed in the energy management training.	75
To report back about our involvement in the Better Cotton Practices initiative.	The preparation phase of this five-year initiative was finalised. Targets achieved in 2005 included the establishment of a steering committee and technical working groups and securing stable funding for the project's duration.	100

**Finance targets 2005**

<b>Targets</b>	<b>Progress</b>	<b>%</b>
To deliver mid- to high-single digit currency-neutral sales growth.	Currency-neutral sales grew 12% (continuing operations).	100
To grow currency-neutral revenues at all brands and in all regions.	Currency-neutral revenues grew at all brands and in all regions (continuing operations).	100
To exceed medium-term gross margin range of 45-46%.	Group gross margin reached a record level of 48.2% (continuing operations).	100
To achieve our highest operating margin ever.	Operating margin improved by 0.7 percentage points to an all-time high of 10.7% (continuing operations).	100
To drive earnings growth of 10-15%.	Group earnings grew 22% to euro 383 million, the highest earnings ever (figures represent continuing and discontinued operations).	100
To further increase shareholder value.	adidas-Salomon AG share price grew 35%. Executive Board to propose stable dividend at the upcoming AGM.	100



## Targets for 2006

Our targets for the current year are grouped under:

- Management targets
- Suppliers targets
- Environment targets.

### Management

- To ensure an effective and people minded integration of the adidas and Reebok companies by managing the appointment process and the alignment of the remuneration practices.
- To unify the existing brand compliance programmes into one Group-wide function.
- To distribute the CSR-survey among adidas Group employees; to analyze and report back on survey findings.
- To finalise the review of the Group's internal code of ethics and to plan the roll-out of a Group-wide compliance programme.
- To develop a regular review mechanism of supplier SOE KPI with the Sourcing organisation.
- HR-Talent Management/Performance management: To implement the Group's Talent Performance Management and Career development concepts (team line up, Champions league, PEP) in all Regions and HQ functions.

### Suppliers

- To roll-out the first two modules of HR-management system and to provide training to a selective group of key suppliers in China.
- To fully apply the new SOE KPI for all key suppliers per region, update their compliance performance rating, and link the KPI to supplier strategic compliance planning and expectations for the Sustainable Compliance Guidelines.
- To fulfil our obligations towards the FLA in view of an increased number of applicable factories.
- To apply the safety officer registration and training programme with selected suppliers in one key sourcing country in Asia.
- To commit at least 5 worker dialogues in the Americas, Asia and Europe with focus on worker-management communications and verification of the country risk assessments.
- Increase our strategic monitoring practice to 75% of SEA factory monitoring exercises.
- Ensure that all key suppliers develop and start implementation of strategic compliance plans informed by KPI ratings.

### Environment

- To finalise the development of an HSE Guideline for SMEs and to identify external service providers for roll-out and training.
- To run energy-saving workshops for key footwear suppliers in Asia facilitated by environmental consultants.
- To extend the use of the environmental indicator system to one selected footwear and vertically integrated supplier in Latin America.
- To provide a progress report on the Better Cotton project.
- To develop an environmental accounting framework for all major sites of the adidas Group.

## Glossary

**Capacity building** Helping our business partners and others understand how to manage and improve workplace conditions, e.g. through training, producing guidance manuals, and sharing best practice.

**Community Affairs** Corporate function which coordinates a network of employees managing corporate donations, volunteering programmes and community relations in the subsidiaries and other local entities of the adidas Group. This function has become part of the SEA team in 2005.

**Corporate social responsibility (CSR)** Managing a company's business processes in a way that creates economic value while also respecting people and communities and minimizing environmental impact.

**Eco-Management and Audit Scheme (EMAS)** System designed to improve a company's environmental performance by ensuring that all environmental effects and impacts of a facility are recorded and documented.

**Fair Labor Association (FLA)** Non-profit organisation working cooperatively with companies, NGOs and universities, to promote a workplace code of conduct based on International Labour Organization standards.

**Flock transfer printing** Technology that allows structural and solid print designs.

**Global Operations** Board function responsible for the global development and sourcing of adidas products such as footwear, apparel, accessories and gear.

**Global Reporting Initiative (GRI)** Independent institution developing a generally accepted framework for sustainability reporting.

**Hot melt** Environmentally safe bonding technology using heat-activated adhesives.

**ISO 14000/1** Environmental management standard.

**Key Performance Indicator (KPI)** Measures the effectiveness of actions taken by our suppliers to ensure compliance with the SOE.

**Lean** Manufacturing efficiency programme promoted by the adidas Group to improve overall factory performance in terms of delivery, quality and cost.

**Lean/6 Sigma** A more sophisticated methodology aimed at eliminating defects.

**Multi-Fibre Arrangement (MFA)** Introduced in 1974, establishing the rules for international trade in textiles and garments. Through the MFA, quotas were set limiting the amount of imports of textiles and clothing to the developed world. The MFA expired at the end of 2004.

**Non-governmental organisations (NGOs)** Special interest groups, often not-for-profit, raising awareness of sustainable development issues in business.

**OHSAS 18000** Occupational health and safety standard.

**Polyvinyl chloride (PVC)** Synthetic material used in the manufacture of sports apparel and hardware that we are striving to phase out because of its adverse health and environmental impacts.

**Social and Environmental Affairs (SEA)** Department of the adidas Group responsible for producing and developing sustainability policies and initiatives, and promoting social and environmental awareness throughout the Company and its supply chain.

**Socially Responsible Investment (SRI)** Investment that is made on the basis of the financial, environmental and social performance of a company.

**Stakeholder** Person, community or organisation that affects, or is affected by, the operations of a company.

**Standards of Engagement (SOE), the Group's code of conduct**  
A set of labour, health and safety, and environmental principles designed as tools to help the adidas Group choose supply chain partners, monitor their performance and identify problems.

**Sustainability** The ability to create economic, social and environmental value in the long term.

**Volatile Organic Compounds (VOCs)** Solvents that can cause breathing and health problems. VOCs are byproducts of the shoe manufacturing process.

# Mission and values

We are striving to be the global leader in the sporting goods industry and this demands that we return strong financial results. But leadership is not only about results, it is also about how success is achieved. We are accountable for the way we do business. In particular, we accept responsibility for the way our products are manufactured by our suppliers. By our actions we can – and should – improve the lives of workers who make our products.

Our vision is for everyone in the Group and the supply chain to share a common set of values and to follow responsible business practices. As well as improving working conditions in suppliers' factories, being responsible also means:

- Reducing the environmental impacts of our operations
- Caring for the welfare and development of our employees
- Making a positive difference to people in the communities where we operate.

In this section we list our values, our sustainability principles and our corporate missions on social and environmental affairs, human resources management and community affairs.

## Our values

**Authenticity. Passion. Innovation. Inspiration. Commitment. Honesty.**

These core values define who we are and what we strive to be each day: an honest, committed, innovative and authentic business that is inspired by, and passionate about, sport.

## Sustainability principles

Our core values inform our principles of sustainability, which help us set standards for our social and environmental performance. They are:

### Legislation

We adhere to social and environmental laws, directives and guidelines while continually improving upon our own contribution to a sustainable society.

### Management

We aim to:

- analyse, evaluate and assess the social and environmental impact of new products, technologies and processes at the design and development stage
- set up clear targets, formulate an action plan and monitor progress
- publish the results.

### Supplier and customer relationships

We expect suppliers' activities to be compatible with our Standards of Engagement. We work in partnership with them to improve our collective performance. We encourage our business customers to take a proactive stance on the social and environmental impact of their own activities.

### Support

We support social and environmental projects and develop partnerships with businesses and organisations whose direct and indirect output contributes to a sustainable society.

### Stakeholder dialogue

We aim to listen, respond and interact with all stakeholders in an atmosphere of mutual trust and respect. We provide them with appropriate information related to the social and environmental performance of the Group on a regular basis.

## Corporate missions

Our principles of sustainability outline the operational framework for becoming a more sustainable company, and inform our individual missions in Social and Environmental Affairs, Human Resources management and Community Affairs.

### Mission for Social and Environmental Affairs

Being a leader in terms of social and environmental affairs means we are dedicated to socially responsible, safe and environmentally sustainable practices in the Group and its supply chain, and to enhancing the value of our brands by:

- guaranteeing the ideals of the company for the consumer and for those making our products
- making the supply chain more effective
- strengthening our image and reputation
- helping to provide a long-term future for sport.

### Mission for Human Resources

The success of the Group is a direct result of the commitment and talents of people who work for us. We are seeking to build the leading global team in the industry. Our mission is to create the best and most productive workplace in the world by:

- creating a working environment that stimulates team spirit and passion, engagement and achievement
- instilling a performance culture, based upon strong leadership, setting the ground for winners

- fostering an understanding of social and environmental responsibility for the world in which we live; for the rights of all individuals, and for the laws and customs of the countries in which we operate
- providing a secure working environment.

### **Mission for Community Affairs**

It is our responsibility as a member of each community to act as a true corporate citizen and we are committed to doing this through a range of activities including corporate giving, volunteer work and community relations programmes.

## **SEA team**

The Social and Environmental Affairs (SEA) team is tasked with ensuring the Group is working towards its vision to operate responsibly. In practice, this means the team ensures compliance with our Standards of Engagement within the supply chain and manages the Group's environmental and community affairs programme.

The SEA team consists of a diverse group of 35 individuals – engineers, lawyers, HR managers, and former members of non-governmental organisations (NGOs). The group is organised into three regional teams covering Asia, the Americas and Europe, Middle East and Africa (EMEA).

### **How the SEA team works**

SEA collaborates closely with other global functions such as Sourcing, Marketing, Product Development and HR. It 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.

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 SEA team follows a rolling three-year strategy that focuses on how our sustainability principles and missions can be integrated into our day-to-day operations and work with business partners.

This strategy, together with our business principles and the results of regular interaction with stakeholders, forms the basis of our road map to sustainability. This is outlined below:

- Supporting business partners in developing effective human resources and health, safety and environmental management practices in their manufacturing operations
- Building capacity within the workforce and the management of our supply chain so they understand how to manage and improve workplace conditions themselves

- Expanding our network of local workers' organisations, NGOs and other representative groups so that we better understand working conditions in the places where our products are made
- Raising environmental awareness and promoting environmental best practice
- Supporting business partners in their local community activities.

Every year we determine how we will follow this road map by translating our strategic objectives into specific initiatives in the SEA team's annual action plan. Progress is measured at fixed review dates and results are reported to the Executive Board.

# 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. By involving stakeholders in key decisions that shape day-to-day operations, we gain an understanding of current and emerging issues and can best balance interests and improve our performance. We recognise that clear, effective and honest communications with our stakeholders enhances the transparency of our business and demonstrates our commitment to being accountable.

In short, actively engaging our stakeholders underpins all our efforts to be a more sustainable company.

In this section we list our stakeholders, outline partnerships we have with particular organisations and describe how we engage with our stakeholders. We describe our responses to what stakeholders have told us in Responding to general feedback and Follow-up to 2004 feedback. Two case studies highlight how we are engaging stakeholders in our supply chain.

## Our stakeholders

Our stakeholders are a diverse group and include the following:

- **Employees** of the adidas Group
- **Authorisers** government, trade associations, shareholders, Board of Directors
- **Business partners** unions, suppliers, workers, service providers
- **Opinion formers** journalists, community members, special interest groups
- **Customers** professional sports people, distributors, retailers, consumers.

## Partnerships

We have always worked closely with our business stakeholders – including customers, suppliers, shareholders and staff – in order to build trusting commercial relationships. Increasingly, we are working in partnerships with NGOs so that together we can address their concerns about the way that we conduct our business. Noteworthy partnerships include:

- Football industry project, Pakistan
- Fair Labor Association (FLA)
- Environmental Consultancies
- The World Business Council for Sustainable Development
- Round table on codes of conduct, Germany
- AFIRM Working Group.

### Football industry projects, Pakistan

The World Federation of the Sporting Goods Industry (WFSGI) is an independent association formed by the industry suppliers, national organisations and sporting goods industry related businesses. The WFSGI enables the sports industry (including

manufacturers from developing countries as well as brands based in the richer market countries) to work together on social and environmental issues.

In Pakistan, WFSGI began a project in 1997 to phase out underage workers from football stitching. The project works through the support of a number of different organisations. The International Labour Organization monitors football production. Local NGOs such as Sudhaar and Bunyad are strengthening primary school education in the area with support from Save the Children and UNICEF. The National Rural Support Programme helps to supplement family incomes through savings and credit programmes.

WFSGI later helped to establish a similar project in India where the Sports Goods Foundation of India, UNICEF, Save the Children and the Centre for Research in Rural and Industrial Development (CRIDD) have established an education programme. The monitoring is done by SGS. Funding for the projects comes from the UK's Department for International Development and the US Department of Labor.

### The Fair Labor Association

The Fair Labor Association (FLA) is a non-profit organisation made up of private corporations, non-governmental organisations and universities. It sets workplace standards and appoints accredited inspectors to monitor how well affiliated companies meet these standards. The FLA publishes an annual report with each company's results.

### Environmental consultancy INTECHNICA

INTECHNICA are environmental and management consultants who help the adidas Group to introduce and maintain management systems for occupational health, safety and environmental protection and assist in establishing and developing quality management systems at various sites of the Group. INTECHNICA is part of an international network with locations in London, Brussels, Pamplona and Singapore.

### The World Business Council for Sustainable Development

The membership of the adidas Group in the World Business Council for Sustainable Development (WBCSD) was agreed in 2000 and became effective in January 2001. The Council is a coalition of some 150 international companies who share a commitment to sustainable development. The WBCSD aims to develop closer

co-operation between business, government and all other organisations concerned with the environment and sustainable development, and to encourage high standards of environmental management in business. We aim, through the Council, to share our experiences with other companies and stakeholders and to extend our knowledge of issues relating to sustainability.

### Round Tables on codes of conduct

We are participating in a Round Table on codes of conduct established and facilitated by the German Ministry for economic development and cooperation. The Round Table comprises representatives of the private sector, trade unions, non-governmental organisations and government.

The objective of the Round Table on codes of conduct is to improve the implementation of labour and social standards in developing countries through corporate codes of conduct.

Working together, the Round Table is focusing on designing effective and universally acceptable processes for the introduction, monitoring and verification of voluntary codes of conduct. This includes how to adequately involve trade unions/employee representatives and non-governmental organisations.

### Project involvement

The adidas Group is engaged in a project that was developed by a sub-working group of the Round Table. The project is about improving working conditions and competitiveness in subcontractors to multinational companies in Romania, by providing training on in-company dialogue between management and employees.

The project began in February 2005 and will run through October 2006.

Read more at [www.coc-runder-tisch.de](http://www.coc-runder-tisch.de)

### AFIRM Working Group

The adidas Group is an active member in The Apparel and Footwear International Restricted Substances (RS) Management Working Group (AFIRM). It is a multi-company working group which provides a forum to advance the global management of restricted substances in apparel and footwear and to exchange ideas for improving RS management to ultimately increase consumer satisfaction. The AFIRM Working Group brings together product chemistry, safety, regulatory, and other experts within the apparel and footwear industry.

## 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 factory managers. See Reports of stakeholder dialogue meetings in the stakeholders section of our website. Also see Responding to general feedback and Follow-up to 2004 feedback

- 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.

## SRI Fund managers and analysts

Interest from the financial community has steadily increased. Over the course of 2005, we responded to eight comprehensive enquiries from socially responsible investors, fund managers and financial analysts. The questionnaires they send us require about 8-10 hours of work for each to complete. We also gave two telephone interviews to SRI organisations.

We met with analysts in several one-on-one meetings, usually of about an hour each, at two major SRI conferences in Frankfurt and Paris.

## Employee engagement

In order to understand our employees' views on Corporate Responsibility and for adidas staff to better understand the work of SEA, we undertook the following initiatives in 2005:

### Internal reporting

This year our social and environmental report was again communicated to all our employees via our global electronic newsletters and our intranet. Furthermore, information about our social and environmental programme was distributed to all employees via the quarterly newsletter 'Inside'.

Programme updates were regularly reported via the company's newsletter and circulated to the global workforce. The Employees' newsletter also contains a new section about community affairs that provides employees with current information.

### Employee Feedback Survey

A survey was conducted on the importance of various aspects of corporate responsibility to our employees and the support provided by the SEA team. A summary of survey findings will be reported on our website.

### Induction of new employees

In Asia, 40 new managers and staff were provided with an orientation session on SOE in Hong Kong. For about 90 new employees in North America, quarterly HR orientations were conducted, including a history of the SOE programme. In Europe 188 new employees participated in the quarterly-held orientation sessions on SOE in the adidas headquarters.

### Training provided to employees of the adidas Group

The following training sessions took place:

- Americas – there were seven training sessions for employees of the adidas Group and one cross-training session on Continuous Improvement with Lean staff held in Guangzhou (China)

- Europe – SEA team members held 21 training sessions for a total of 49 adidas employees from France, Hungary, Italy, Russia, South Africa, Tunisia, Turkey and at our Headquarters in Germany. This includes four orientation sessions on SOE for 17 new managers and staff in Turkey
- In Asia, the SEA team provided 41 training sessions for internal staff in Australia, Cambodia, China (Guangzhou, Shanghai and Hong Kong), India, Indonesia, Japan, New Zealand, Thailand and Vietnam. This includes one cross-training session on labour compliance for TaylorMade sourcing staff in the USA.

## Responding to enquiries

### Customers

In 2005, we responded to each inquiry, whether they were submitted by individual consumers, school classes or retailers. We received more than 20 specific enquiries, approximately 500 standard letters and postcards as well as more than 2,100 emails. Major subjects of inquiries were:

- Product safety – adidas policy on restricted substances
- Environmental issues – adidas programme on the elimination of PVC
- The company's supplier monitoring programme under the SOE
- Specific supplier cases.

### Media

During 2005, we received more than 25 formal enquiries from the media – the international press, radio and television. This included 18 requests for interviews and two requests to complete CSR questionnaires. On five occasions, journalists visited factories and were accompanied by SEA staff. Two visits were deferred to 2006. The Social & Environmental Report 2004 was made available to the media and journalist's questions were discussed upon request.

### Non-government organisations

NGOs, worker rights groups, campaigners, students and the academic community were active through the year, raising questions and presenting proposals regarding workplace conditions. Examples of enquiries include:

- questions over supply chain transparency and whether adidas will make public the names and addresses of our suppliers' factories
- feedback on improvements to workplace conditions at PT Panarub, a supplier being independently monitored by the Worker Rights Consortium (WRC)
- repeated allegations by an NGO concerning substandard working conditions in a garment factory in Honduras
- the end of the Multi-Fibre Arrangement and the Group's sourcing strategies
- a proposal from United Students Against Sweatshops (USAS) to require university logo apparel goods to be produced by designated suppliers where workers earn a living wage and are represented by legitimate trade unions.

Our public responses to these concerns can be found in our Statements section on the website.

## Participation and collaboration

In 2005, the adidas Group actively participated in the work of the World Business Council for Sustainable Development, the World Federation of Sporting Goods Industry's CSR Committee and the Fair Labor Association.

We also participated in:

- Discussions with the Global Business Coalition on HIV/AIDS China Working Group regarding HIV/AIDS programmes being implemented in China
- Indonesia's National Tripartite Summit, with government, the ILO, Union Federations and the Employers association
- A Multi-Stakeholder Initiative pilot project (Jo-In Project) in Turkey about workplace standards; together with six international organisations, nine brands, 14 suppliers' factories and various other stakeholders. See [www.jo-in.org](http://www.jo-in.org)
- Multi-stakeholder engagements by the ILO Cambodia regarding the Better Factories initiative
- European Chamber of Commerce CSR Working Group in Beijing and their Supply Chain Task Force
- German Round Table on Codes of Conduct; Worker-Management Communications Pilot in Romania
- BDA (German Employer Association) ad hoc Working Group on CSR. See [www.csrgermany.de](http://www.csrgermany.de)
- 'Stiftung Warentest' football testing (Germany)
- The GREENPEACE Best-in-Class workshop
- Brands Collaboration: Organisation of two 'Awareness Raising Trainings for Emergency Preparedness' with several supplier partners (40) participating from various brands (10), executed by AKUT (Search and Rescue Association), a Turkish NGO
- Footwear Distributors and Retailers of America China workshop
- Strategic discussions with Guangdong Bureau of Health and Guangdong Family Planning Commission regarding the Marie Stopes International needs assessment conducted in selected suppliers in Southern China, in relation to HIV-AIDS and general reproductive health
- Discussions with Center for Reflection, Education and Action (CREA) for launching a Fair Wage Study in El Salvador
- Formation of a Better Workplace Foundation in Hong Kong, to support education and awareness raising in China in relation to labour rights and occupational health and safety
- Marie Stopes International and Concepcion Caceres Womens's health project in Honduras
- ILO Training Center engagement with Asian trade unionists in Bangkok/Thailand
- CSR Community initiative in Guangzhou/China
- Ongoing dialogue with Play Fair Campaigners
- International Textile Garment and Leather Workers Federation forums in Hanoi and Costa Rica
- ILO-US Department of Labor Industrial Relations Project, Vietnam

- PriceWaterhouseCoopers Sustainability Practice, pilot of supply chain risk tool
- Discussions with WWF China regarding energy consumption trends in China and the feasibility of factory assessment being undertaken by environmental and energy consultants in China
- CSC9000T, China's first indigenous social compliance standard being piloted in the apparel sector. We have had extensive discussions with the CSC9000T staff to share practices, learnings, monitoring methods, guidelines and ideas for future development of compliance practices in China.

In some cases we have not been a direct participant but nevertheless we have considered the outcomes and recommendations of other key multi-stakeholder initiatives and, where appropriate, we have incorporated these to our own practices and programmes. For example, the Multi-Fibre Arrangement (MFA) Forum developed a useful 'Collaborative Framework for Guiding Post-MFA Actions'. The Framework provides a set of principles and a guide to the roles and activities that organisations should consider as they deal with MFA impacts. We benchmarked our own policies and approaches against the Framework and found a close fit with recommendation actions.

## Responding to general feedback

General feedback from our dialogues in 2004 was insightful and included certain expectations and suggestions. We incorporated this feedback into our programme for 2005, with the following outcomes:

**Stakeholder feedback: '... the company should take a greater leadership role in the sporting goods industry, be more influential on other brands.'**

We have extended our outreach and have shared our experience with other sports brands, including Asics and Umbro. We have also continued to have an active dialogue with our counterparts in Reebok and in Nike, both at a field level and through our shared membership to the FLA and WFGSI.

**Stakeholder feedback: '...greater focus should be given on training and capacity building...'**

We have continued to place emphasis on building capacity and training and have focused in 2005 on developing the necessary in-house skills and identifying the external service providers to support our drive towards more sustainable compliance practice.

**Stakeholder feedback: '...more continuity was sought between reports...'**

In 2005, we reviewed previous reports to ensure continuity and consistency between reporting periods and to match targets against actions taken, or not taken.

**Stakeholder feedback: '...more actual data is requested which show improvements...'**

In our sustainable compliance guidelines launched in 2005, key business partners are requested to track their health, safety and environmental performance and report transparently about their progress. Since 2001 we have been recording the environmental impact of major footwear factories in Asia. Cumulative environmental statistics are reported in the Environment section of our website.

**Stakeholder feedback: '...more facts and figures should be provided about adidas Group employees...'**

Our 2004 Social & Environmental Report extended the coverage of data and description of our internal HR practices.

**Stakeholder Feedback: '...more clearly show the business case for compliance...'**

The business case for compliance has been spelt out in our Sustainable Compliance Guidelines, published in 2005.

## Follow-up to 2004 feedback

Feedback from the 2004 stakeholder meetings was incorporated into our plans for 2005, but as in the previous year we did not achieve all that we aimed for. For example, we were not able to achieve an increase in worker rights awareness in Asia, as was originally planned. We did, however, achieve the following:

**Plan: 'To develop a self-assessment report for workers to provide feedback on their working lives in China, in collaboration with an international NGO.'**

We discussed with Oxfam Hong Kong the possibilities of developing and running a workers self-assessment in China. However, because of their limited resources and other project commitments this has had to defer this project to 2006. Commitments carried forward to 2006.

**Plan: 'To carry out a worker dialogue in Pakistan to obtain a feedback on securing social security benefits for casual labourers stitching footballs.'**

An independent social compliance review was conducted in Pakistan and workers in stitching centres were interviewed to obtain feedback on their social security needs. Commitment for 2006: to incorporate information in the structure of football pricing and to canvas industry to support formalising social benefit payment to stitchers.

**Plan: 'To participate in the development and execution of pilot projects scheduled in Romania to improve worker-management communication.'**

We participated in the project design and are now in the stage of executing a pilot project that promotes two-way communication between employees and management in Romania, together with other brands, German unions, international and local NGOs and Organisations. Commitment ongoing in 2006.

**Plan: 'To provide more worker awareness raising sessions on the SOE and worker rights in Asia.'**

Due to resource constraints we failed to deliver more rights



awareness training for workers in Asia. We did, however, begin to identify suitable NGO training partners in this region. We focused on awareness-raising for workers in the areas of communication and grievance systems during our worker-management communication project in Turkey.

**Plan: 'To identify NGO partners to support worker rights training in China and to extend our engagement with the All China Federation of Trade Unions (ACFTU).'**

We hosted a workshop to identify potential NGO partners to support worker rights training. At a provincial level we extended our outreach to ACTFU officials in Guangzhou, where there is the greatest concentration of our suppliers.

**Plan: 'To review the enforcement of our policy on forced labour.'**

Our internal policy on forced labour was reviewed and strengthened and a consultancy study commissioned to examine the safeguards for migrant workers. The EDC (Education Development Center) is currently researching regional trends and visiting adidas suppliers in the Asia-Pacific region in order to produce:

- a) an internal database for the SEA team setting out current trends, migration patterns, numbers of migrant workers within the supply chain in certain countries, and the current recruitment agents and practices (both lawful and 'off the books');
- b) a detailed guidance note on treatment of migrant workers throughout the employment cycle for both internal use and suppliers; and
- c) training materials for suppliers on this subject. Additionally, the EDC will detail its recommendations for next steps and potential project partners going forward. Enquiries were made with the Japanese and South Korean Governments, to clarify policies related to migrant workers.

## Complaint and redress mechanism

### Worker complaints and requests

In 2005, labour rights groups, trade union officials and workers approached SEA on more than 370 occasions, seeking help or redress to issues in partner factories. The most common complaints related to strikes and disputes, unfair dismissal, discrimination, incorrect payment of wages and benefits, harassment and intimidation, excessive overtime, disciplinary practices and poor workplace conditions. Where there was an allegation or complaint, an investigation was conducted, the facts behind the case established and, where proven, action was taken.

### Improving the complaints and redress mechanism

We have strengthened the transparency of our complaints and redress mechanism by taking the following steps:

- Our complaint and redress mechanism has been incorporated in The Contact section of our website
- The Contact section also includes a link to the FLA third party complaints channel

- For the complaints and redress mechanism to be truly useful, we recognise that we should 'close the loop' and include worker feedback when we are commissioning new projects. We have managed to do this with a number of key projects including the Compliance Review in Sialkot Pakistan and the worker-management communication project in Turkey
- Unfortunately, we were not able to complete our worker rights training so it remains an outstanding commitment to incorporate the complaints and redress mechanism in the training.

## Case studies

In this section we detail two case studies of stakeholder dialogues we have held with partners in our supply chain:

- Workers' feedback
- PT Panarub factory – addressing stakeholder concerns.

### Workers' feedback

One challenge we faced in 2004 was to find ways to get clear input from workers about the effectiveness of Codes of Conduct (CoC) and compliance programmes, in a manner that maintains worker confidentiality and trust. Feedback from this key stakeholder group is critical to verifying that our compliance activities in factories are relevant and meaningful to workers.

The objectives of the engagement project were to organise the activity at a venue comfortable for the workers, to identify the gaps in their understanding of the CoC, and to develop more effective compliance and remediation tools. We also wanted feedback on how factories' compliance management systems could better address non-compliance, including management-worker communication, freedom of association, and blacklisting.

### Two worker dialogues

Two worker dialogues were held in El Salvador and Honduras in September 2004. We learned that there is a need for additional training of workers and managers to raise awareness of the CoC and local laws. Worker feedback stressed that remediation should encourage suppliers to internalise compliance programmes because there are benefits to maintaining good working conditions. Unannounced visits by auditors would encourage factories to assimilate CoC systematically and with sustainable impact rather than just cleaning up for the monitors.

### Local facilitators

The facilitators were NGOs local to each country – Grupo de Monitoreo Independiente de El Salvador and Equipo de Monitoreo Independiente de Honduras. They were responsible for creating the agenda, selecting participants, coordinating logistics, and producing a summary report. Representatives from organised labour, local NGOs, and the adidas SEA team attended as observers. Each dialogue included approximately 16 worker participants from local apparel factories.

## Findings

The dialogue facilitators agreed in the project summaries that worker engagement is essential since it enables factory workers to express their point of view about how the CoC are being implemented, and what effect the compliance programmes are having. They concluded the effort truly influences the improvement of labour practices in their supply chain.

'Worker engagement is essential since it enables factory workers to express their point of view about what effect compliance programmes are having.' Summary report of worker dialogues

remain problematic; in October 2004, a bonus pay dispute led to a strike and the temporary closure of the factory. To further support transparency, at the end of 2004 we began to publish updates of the ongoing remediation efforts at PT Panarub.

## PT Panarub factory – addressing stakeholder concerns

For the past five years, PT Panarub, a key footwear supplier to adidas located in Indonesia, had been beset with industrial relations problems and breaches of the SOE.

### History of the complaint

These issues were reported by Oxfam Australia in *We are Not Machines*, a report published in March 2002. Citing the findings of the Oxfam report, in September 2002, the Clean Clothes Campaign lodged a complaint with the Organisation for Economic Corporation and Development's (OECDs) national contact point in Austria related to PT Panarub and another Indonesian footwear supplier, Pou Chen. The complaint was subsequently transferred to the OECD national contact point at the Federal Ministry of Economics and Labour in Germany, for mediation. A concluding statement was issued by the Ministry in May 2004.

### Reaching agreement

Since 2001, the adidas Group has maintained a dialogue with Oxfam Australia and in February 2004 an agreement was reached to allow a credible and independent third party, the Worker Rights Consortium (WRC), to enter PT Panarub and investigate SOE violations. A key driver to the agreement was the acceptance by all parties of the need for greater transparency, to establish root causes and bring about lasting change. A pre-condition of the WRC's involvement was the right to make public its findings. See [www.workersrights.org](http://www.workersrights.org)

'The Assessment Team concluded that factory management illegally terminated workers' contracts and used coercive means to compel workers to resign.' from Worker Rights Consortium Assessment re PT Panarub (Indonesia) – Summary of findings and recommendations, September 7, 2004, page 16

### The supplier's response

PT Panarub has responded positively to the findings of the WRC report, and has made improvements – the most significant of which was the restatement of previously dismissed workers and the introduction of medical insurance for all workers and their families. Despite these changes management-union relations

# Suppliers and workers

Workers in our suppliers' factories are at the heart of our programme. It is concern for their working conditions that led us to writing our code of conduct. Some of the most challenging issues workers face are discussed in exploring labour standards. Our suppliers must also safeguard their workers' health and safety. To explain how we expect our suppliers to live up to our standards, we have produced a number of supporting guidelines which detail the SOE principles.

Our supply chain is large and varied. We have a detailed approach to managing our suppliers. This includes both adidas staff monitoring compliance, and independent auditors verifying compliance with our SOE. We are committed to facilitating improvement and working with others to achieve this, so we invest in capacity building and outreach. We have a process for enforcing compliance with our standards and a new system for rating our suppliers. In three case studies, you can read examples of how we implement our approach to improving performance in our supply chain.

## Code of conduct

Our full Standards of Engagement (SOE) can be found on page 29 of this document.

## Exploring labour standards

All companies that source from developing countries face challenges in implementing codes of conduct. Our code of conduct – the Standards of Engagement – sets out the Group's position on a number of important labour issues. In some cases implementing these standards has been particularly challenging. Here we explore the steps we have taken to meet these challenges and what we have achieved on:

- Working hours
- Fair wages
- Freedom of association
- Our position on child labour.

## Working hours

In 2002, working with our Sourcing department, we surveyed Asian footwear factories on working hours. We found that, while the trend was toward reduced working hours, there were still many instances of people working more than our SOE maximum of 60 hours/week.

We established a taskforce that first looked at supply-side issues and found the causes of excessive working hours included:

- poor production planning
- late material deliveries
- high turnover rates
- worker seasonality.

In 2003, the taskforce looked at internal operations at the adidas Group reviewing where we were putting pressure on the number of hours worked. The task force submitted recommendations that covered:

- a revised method of calculating main supplier production capacity, order forecasting and capacity loading
- monitoring the quality and delivery performance of raw material suppliers
- guidelines for last minute order fulfilment demands and charges.

## Striking the balance

Despite this valuable work, the demands of our consumers for short lead times at competitive pricing have made it challenging to enforce the 60-hour work week. Our efforts to alleviate the issue with a production efficiency drive has, in some cases, led to less overtime and less pay or even lay-offs. In other cases production efficiencies have led to more secure employment – depending on how they are implemented by management.

The number of variables involved – external market demands, pricing, material suppliers' performance, staff turnover, management approach – means striking the balance between ensuring workers consistently earn a fair wage and that they avoid working excessive hours is particularly challenging.

## Fair wages

What is a sufficient wage to cover basic needs and reasonable savings and expenditure? Answering this apparently simple question is the challenge we set ourselves when we revised our Standards of Engagement in 2001.

To begin investigating the question, we commissioned an NGO to carry out a pilot project on fair wages in Indonesia. Their findings were presented in a suite of reports at two workshops in 2003 in Indonesia and the USA. Read the full text of the reports on our website.

The Indonesian workshop was an opportunity to hear from a range of stakeholders and based on that and the reports, we have been able to outline a strategy to improve wages and benefits.

### Fair wage strategy

By 2006, we want each of our strategic business partners to have established a wage-setting mechanism that:

- Is transparent and has the direct input by the workers, i.e. ideally through negotiation or collective bargaining, or through alternative legal means, such as a workers council or welfare committee
- Benchmarks basic pay at a level that is higher than the local minimum wage
- Acknowledges and rewards workers for productivity gains
- Includes and takes into account data on general cost of living and workers' needs
- Is part of a broader and much improved human resource management system
- Meets in full all legally mandated benefits
- Where practicable, promotes and supports the development of worker cooperatives.

### Freedom of association

We believe that worker-management communication is vital for business that wants to be successful. Workers must have opportunities to feedback to management to help resolve workplace issues and disputes. Our position has been made clear through our SOE.

In order to provide clearer guidance and a deeper understanding of our requirements, in 2001 we produced the SOE Employment Guidelines. The Guidelines include a dedicated section on FOA and collective bargaining and set out in detail our expectations, case studies and practical steps suppliers can take to achieve compliance.

One form worker-management dialogue can take is through a trade union. Our position is neither pro- nor anti-union. We believe that workers' rights to freely associate must be protected, and they must not suffer because of any union affiliation. We have persuaded factories to rehire staff dismissed for attempting to form associations (see Case study: PT Panarub – addressing stakeholder concerns).

As a buyer we do not want to become involved directly in forming associations, but we feel they have a valuable role to play in giving workers a voice and providing training on workplace safety. However, we are aware that freedom of association (FOA) is a contentious issue in some countries so our position focuses on:

- gaining a clear picture of the local political environment for FOA in the countries where we operate
- developing individual country strategies as appropriate for promoting management-worker-union collaborations that will resolve workplace issues in a sustainable manner.

We have to be flexible in responding to local conditions and have tried different approaches in El Salvador, Indonesia and Bulgaria. The goal is always to ensure workers' voices are heard and trust between workers and management is increased.

In 2005, we have made dispute resolution, mediation skills and worker-management communication mechanisms a key focus of our programme. Training workshops were carried out for China and Vietnam (the countries where we see the greatest incidence of labour unrest). For such sessions, we have requested the participation of government labour departments, ADR lawyers, NGOs, the ILO, human resources consultancies and industry partners. Similar training will be scheduled for Indonesia, Thailand and other countries in the Asia-Pacific region for 2006.

### Our position on child labour

The position of the adidas Group with regard to child labour has been outlined in our Standards of Engagement. The SOE state that 'Business partners shall not employ children who are less than 15 years old, or who are younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.'

The decision about the minimum age for workers has been difficult for us as it has been for the whole industry, and one that we have considered very carefully. We have visited our suppliers' factories to investigate the matter and consulted with the UN before coming to any conclusions. Ultimately, we made our decision in accordance with UN Convention on the Rights of the Child and the International Labour Organization Conventions, and most importantly in the best interests of the young people concerned.

The UN Convention on the Rights of the Child (CRC) and the International Labour Organization Convention (ILO) 138 both allow for work to be done from 14 onwards under certain conditions. The Social & Environmental Affairs team (SEA team) ensures that these conditions are fulfilled in the few cases where our suppliers employ people under 18. Our carefully considered policy takes into account the views of child rights organisations and thus we believe our policy is more in line with the spirit of these international standards than a blanket ban on under 18 work would be.

One of the most important tasks of the SEA team is to check evidence of the workers' ages. Factories are required to keep copies of birth certificates or identity cards, or other legal proof of each worker's age. We are thus able to state with confidence that over 99% of workers making our products are aged 18 years or over.

In most countries the labour law will not allow people under 16 to work, and between the ages of 16 and 18 there are strict limitations about the kind of jobs that can be done, and the number of hours worked. We require our suppliers to comply with these laws and to pay people below the age of 18 at the

same rates as people over 18. We do not allow our suppliers to have young people working for long hours in their factories, or on night shifts, or near heavy machinery.

In a couple of countries formal education finishes at 14 and people are legally allowed to work aged 15. Thus we are involved in programmes in Pakistan and India to ensure that children below 15 do not work, and organisations like the International Labour Organization and Save the Children are helping to improve schools and protect family incomes when children stop working.

In 1997, the ILO, FIFA, UNICEF and the Sialkot Chamber of Commerce and Industry signed a partner agreement to eliminate child labour in Pakistan's football manufacturing industry. As part of its commitment to that agreement, the ILO established an independent workplace monitoring system to check for underage workers in registered stitching centres. adidas has three football suppliers with registered stitching centres in Sialkot. As part of the programme, a local NGO assessed the education needs of Sialkot's children and devised and delivered education and training interventions, partly funded by the adidas Group.

## Approach on health and safety

We expect our suppliers to provide a safe and hygienic working environment for all their employees. Nothing less is acceptable. To make this a reality, we will in future be making it a requirement for all our business partners to establish a health and safety management system, such as OHSAS 18001. Our aim was for all our footwear suppliers to be certified in OHSAS 18001 by the end of 2006. 50 per cent of our suppliers already met the target.

Major apparel and accessories and gear suppliers should be certified by 2006. This year our initiatives have focused on preparing both the SEA team and our business partners for this increased emphasis on management systems.

### Training the SEA team

To provide the necessary support and evaluate the effectiveness of a health and safety management system, all team members have received introductory training in OHSAS 18001. Selected team members attended an in-depth OHSAS 18001 Lead Auditor course, recognised by the International Register of Certificated Auditors, UK (IRCA). The participants now know how to establish an OHSAS management system from inception through to implementation. At the end of 2004, there were two IRCA accredited auditors in the SEA team.

By the end of 2005, seven team members completed OHSAS training and are now qualified to be accredited. One team member has now been accredited as lead auditor for OHSAS 18001 and ISO 14001.

In 2005, there were many internal health, safety and environment cross-training activities which took place around the world, including:

- 22 HSE training sessions
- One environmental cross-training week
- One cross-training on occupational health.

### Training adidas personnel

In 2005, 81 training sessions were provided by the SEA team to adidas Group employees including people from Operations, Product and Quality Management.

### Training suppliers

Training was provided to suppliers to influence the prevailing management culture (in which compliance has not been prioritised) and encourage the management to view labour and HSE compliance as a benefit that helps make their businesses smarter and more efficient.

In 2005 there were 161 training sessions provided to suppliers and factory employees.

### Helping small and medium size enterprises (SME) implement HSE management systems

At the end of 2004 we commissioned an independent consultant to develop a set of industry specific procedures and guidance to help SMEs establish and implement an occupational health and safety management (OH&S) system. For those very small suppliers with few workers and limited resources, this package will:

- Raise the awareness and importance of occupational health and safety
- Help determine the key occupational health and safety impacts and practices for SMEs
- Demonstrate the basics for developing generic guidance, procedures, and work instructions to support the development of a documented OH&S management system, in general compliance with the requirements of OHSAS 18001.

In 2005, two apparel suppliers were selected to prepare them for OHSAS 18001 certification supported by a third party, and both suppliers achieved this target.

However, we have not yet completed the development of the Guidelines for HSE-Management systems for SMEs which will take place in 2006.

### Selection of HSE certification bodies

Globally adidas Group suppliers have a wide selection of health, safety and environmental certification bodies to choose from. However, in developing countries many certification bodies are not subject to any regulatory constraints and provide little assurance of integrity and accountability. For this reason we have selected reputable international certification bodies, and suppliers are encouraged to choose from our nominated list of certifiers.

In order to fulfill our requirements, each nominated certification body must:

- Operate according to OHSAS health and safety management system
- Be recognised by the government authorities where they are located and operate in strict accordance with international standards
- Be subjected to peer assessment by other recognised international accreditation bodies
- Have been accredited by the relevant institution, such as UKAS in the United Kingdom
- Be located in at least three of our major sourcing countries
- Incorporate our SOE and health and safety guidelines.

### Promoting occupational health initiatives

In 2004, we collaborated with Nike and Reebok to organise occupational health (OH) training at our footwear factories in Asia. International SOS, a medical provider, was invited to develop and implement the training programme, which began in China with a review of the OH conditions in the factory clinics and staff facilities and an assessment of training needs. Based on this review, a series of ten training sessions were held attended by medical doctors, the factory management responsible for health issues, and safety officers.

In 2005, the occupational health doctors' training for the three sourcing countries – China, Indonesia and Vietnam was completed. A follow-up audit found general improvements in clinical services.

### Safety officer registration concept

To further enhance the competence and skills of safety managers in factories and to promote self-governance of our suppliers we launched the safety officers' registration concept in 2005. The programme aims to recognise the profession, the occupational health and safety practitioner and the committed individual who in many ways helps to shape up the standard of Occupational Health and Safety in our supplier factories. Dependent on the factory size the concept clearly outlines the required skill sets, roles and responsibilities of safety managers as well as training requirements. In 2006, the concept will be rolled-out with selected suppliers in one key sourcing country and training will be provided.

## Supporting guidelines

The SOE are a set of rules that our suppliers must abide by, but to illustrate how suppliers should implement our standards, we have created a set of guidelines for use in every factory. These expand on our SOE, giving detailed instructions and practical examples including how to implement particular remedial actions to be taken. The guidelines are also used by our SEA team to:

- determine whether a supplier is complying with our standards
- advise and train our suppliers in improving their performance.

We regularly create new guidelines or revise existing ones. Currently there are six guidelines that are further complemented by specific supplementary guidance materials. For example, we issued advisory notes for HSE standards such as Safety officer registration in 2005. The six guidelines are:

- Guidelines on Health, Safety and Environment
- Guidelines on Employment Standards
- Guidelines to Best Environmental Practice
- Worker Cooperative Guidelines
- Enforcement Guidelines
- Sustainable Compliance Guidelines

### Guidelines on Health, Safety and Environment

The HSE Guidelines are the result of the numerous HSE audits conducted with external specialists since the beginning of the SEA programme. The guidelines contain comprehensive written instructions, photographs, charts and symbols, and specific examples of both good and bad HSE practices. As a further aid in communication, versions in several languages are also available to suppliers. The guidelines are complemented by more specific supplementary guidance materials issued by SEA to suppliers.

### Guidelines on Employment Standards

The guidelines set out the employment standards, case studies and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws.

### Guidelines to Best Environmental Practice

Designed to complement the HSE and employment guidelines, this guide aims to help our suppliers meet the environmental requirements of our SOE by helping them move beyond regulatory compliance. It shows how many businesses have saved money by using energy efficiently, reducing waste and preventing pollution.

### Worker Cooperative Guidelines

Our fair wage study uncovered the value of workers' cooperatives so we commissioned two labour NGOs to research and write these guidelines on how to establish a workers' cooperative. The guidelines cover key criteria for success and the pitfalls to avoid.

### Enforcement Guidelines

Finalised in 2004, the enforcement guidelines cover the principles of enforcement of the SOE, and the range of remedies we will apply where the SOE is breached. Such sanctions or remedies include reducing orders, third-party investigations and as a last resort terminating the manufacturing agreement.

### Sustainable Compliance Guidelines

The Sustainable Compliance Guidelines were introduced to suppliers at the May 2005 Global Supplier Summit in Portland, Oregon, and revisited during SEA senior management meetings with key suppliers in the 4th quarter of 2005. The Sustainable Compliance Guidelines are a new cornerstone to the SOE programme, clarifying our SOE performance expectations and

setting out the high-level actions required of suppliers to match these in the coming three years. The Guidelines support a new Key Performance Indicator (KPI) to track improvement and management commitment to SOE.

As stated in the SOE, we expect our suppliers to deliver continuous improvement in SOE compliance. This means that business partners must internalise and take ownership of their compliance programmes to ensure long-term execution and consistency. For internalisation of the SOE to take place, business partners are expected to develop full and effective systems for managing Labour and HSE issues. The necessary resources, and management time, must be committed to maintain those systems. Our expectations and requirements supporting this view are outlined in the sustainable compliance guidelines.

## Our supply chain

We work with more than 700 independent suppliers from around the world who manufacture our products in 59 countries. Many of these are in one of the following five countries: China, Indonesia, Thailand, Turkey or Vietnam.

Our supply chain is global and multi-layered, with many different types of business partner some of whom are directly contracted, others who are not. Our influence in terms of social compliance is linked to the strength of our partnerships, and is often proportional to scale and stability of the orders placed with our suppliers. For this reason we aim to further consolidate our supply chain, with fewer larger factories, with higher order volumes.

### Types of supplier

Suppliers fall into four broad categories:

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

#### Main suppliers

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

#### Subcontractors

Factories that have been subcontracted by our suppliers. They have no direct contractual relationship with the adidas Group, however, we do require them to be authorised for use and SOE approved.

#### Material and other service providers

These suppliers may not have a direct business relationship with the adidas Group, but supply goods and services to our main suppliers. We call these Tier 2 suppliers. Within this category, there are nominated material suppliers with whom we work.

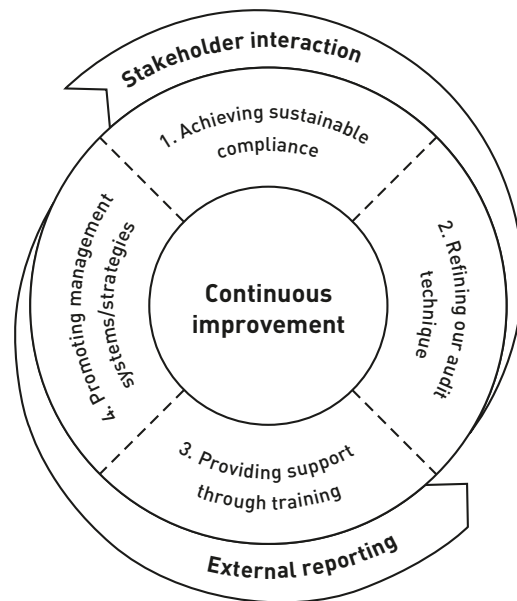
### Licensees

Independent companies which manage the design, production and distribution of specific products, under license to the adidas Group. For more data on our suppliers, see the performance data section.

## Managing our suppliers

We have created what we call our SEA management cycle to describe the way we manage our suppliers. It has four elements:

1. Achieving sustainable compliance
2. Refining our audit technique
3. Providing support through training
4. Promoting management systems



### 1. Achieving sustainable compliance

Our strategy is based on a long-term vision of self-governance in our supply chain where suppliers take ownership of their compliance programme. To achieve this, we need to act both as inspectors and advisors – assessing management commitment to compliance and the effectiveness of the programme, and providing help and support to suppliers to ensure success in the long term.

### 2. Refining our audit technique

Effective compliance needs committed management that is responsive to feedback and our factory rating system needs to be able to measure this. By refining our auditing approach, we will be more able to close the compliance gap where suppliers are delivering practices in a superficial, opaque, and ineffective way.

### 3. Providing support through training

We are committed to facilitating supplier compliance with our SOE. We therefore offer training on all key issues including labour, H&S and environment – either led by SEA or a qualified external service provider. This training can be customised for a

single supplier, or be provided to a number of suppliers in large group sessions. We also provide training with other brands that source from the same factory.

#### 4. Promoting management systems/strategies

We promote effective human resources, health & safety and environmental management systems as an effective way to internalise continuous improvement. Strategy development and execution must be in the hands of qualified, committed and capable middle managers supported and empowered by senior management. The Lean manufacturing initiative and SEA's work need to be collaborative at all stages to ensure that the supplier establishes systems that comply both with the SOE and deliver improved efficiency and productivity.

#### Tackling root causes of non-compliance

To drive effective solutions you need to know the root cause of problems first. In 2005, we continued to address problems suppliers had with implementing effective management systems. These included the employment of incompetent and untrained HR and HSE managers in the supply chain. Little was done to retain those who had been trained to proficiency and so there was a very high turnover of personnel in these positions. A team that is constantly changing cannot perform.

As a result, SEA reduced the focus on training managers and promoted the registration of qualified management system professionals. Work was started with other brands to establish a qualified marketplace of employment candidates. An example is the roll-out of the safety officer registration, a key component of the guidelines for strategic compliance. Separate training and guidelines have been developed on occupational health, targeting the factories' medical staff.

### Monitoring compliance

We audit our own suppliers to check they are complying with our standards and have recently updated our approach. Independent monitoring of our suppliers has also been carried out for the past four years.

#### A new approach to monitoring

In 2004, we introduced a new approach to monitoring our suppliers, which we call 'strategic monitoring'. Previously suppliers 'waited' for audits by SEA field staff that identified non-compliances before taking any remedial action. This reactive compliance model proved ineffective leading to incremental or sometimes purely cosmetic changes in performance rather than sustainable compliance.

#### How strategic monitoring is different

Strategic monitoring rigorously assesses compliance risks and identifies the root causes of non-compliance. Auditors do more preparatory work and then check performance against a risk list customised for the factory in question.

As well as monitoring compliance performance the new system evaluates the effectiveness of compliance systems and the work of their administrators. This in turn leads to a more precise evaluation of training needs and encourages suppliers to implement HSE and HR management systems.

#### Fewer factories visited more often

This approach means deeper monitoring of fewer suppliers, where factories may be visited two or three times more often than before. In 2005, we concentrated on auditing high-risk factories and those with a large order volume. The SEA team audited 301 out of 701 factories (excluding licensee factories), a coverage of 43% of the supply chain. For more audit numbers, see our performance data section.

#### Developing strategic compliance in 2005

Strategic monitoring and its risk-based approach were further expanded in 2005. Internally, all of the tools were updated and revised as a result of pilot audits in 2004 and 2005. A users' guide was drafted in December, and will be finalised in quarter 1 of 2006. Training in the practices of root cause identification, interviewing techniques, and change management is in various stages of development. A new form of the action plan for remediation was developed along with institutional history and diagnostic tools. Strategic monitoring has been successfully linked to the new KPI factory rating (see Rating our suppliers), and strategic compliance planning.

To increase the consistency of different skill levels on the SEA team, strategic monitoring working group members continued to mentor SEA monitors in actual field conditions in China, Thailand, Honduras, and the Philippines. One on one mentoring activities in 2005 gradually replaced the original approach of larger group mentoring. SEA work in 2005 continued to address implementation issues for strategic monitoring, including limited (or incorrect) understanding of the process, managing the change from the performance based approach, and re-prioritising workloads during the implementation period.

### Verifying compliance

In May 2005, the Fair Labor Association (FLA) accredited the compliance programme of the adidas Group. This indicated that we have satisfactorily completed an initial three-year implementation period. The FLA found that the adidas Group was in 'substantial compliance with FLA requirements to implement a rigorous workplace code of conduct in factories making the company's products'.

For the past three years FLA-accredited independent monitors have conducted monitoring visits to suppliers of the adidas Group. In 2005, external FLA-accredited independent monitors conducted:

- seven monitoring audits
- a further five audits as part of the FLA Soccer Project
- two more FLA factory visits as part of the adidas SOE programme assessment.



Read more about our independent monitoring results in our performance data section.

## Capacity building and outreach

Capacity building and outreach during 2005 included developing training needs assessment, supplier strategic planning, industry collaborations, and a more defined approach to freedom of association and worker management communications. Service providers were identified in the regions, and brand collaboration strengthened through combined projects. We have worked on:

- Training
- NGO outreach
- Government outreach.

### Training

There was active participation by SEA in the FLA's Central America Project that delivered training on best practice guidelines for hiring, firing, grievance and discipline to Central American labour inspectorates, maquila associations and suppliers. SEA attended freedom of association training at the Cornell University School of International Labor Relations. These measures contributed to the subsequent refinement of the new KPI's component for freedom of association (FOA) and the evaluation of suppliers' respect for worker representation and dispute resolution.

Staff in China participated in FLA-run training for workers on the development and function of grievance systems, while staff in Vietnam attended NGO training on managing HIV-AIDS in the workplace. SEA have supported internal business continuity planning in Asia, and training for operational staff in Vietnam, on preventative measures related to Bird Flu.

### NGO outreach

In the Americas, there was continued outreach with NGOs and workers in El Salvador and Honduras, including worker consultations to verify SEA's process for assessing compliance risks. There were SEA training sessions on strategic compliance planning for selected key regional suppliers and the Maquila Industry Associations in Honduras and Guatemala were engaged frequently to clarify compliance expectations, local laws, and sustainable compliance activities. In Europe there were also SEA training sessions on strategic compliance planning for selected key regional suppliers. In China and Vietnam SEA worked closely with local arbitration bodies, external consultants and the ILO, to develop and run dispute resolution training for suppliers.

Efforts to strengthen occupational health continued, with training for suppliers on OHSAS 18001 management systems in China and medical training for the clinicians in key apparel suppliers in China, Indonesia, Thailand and Vietnam. Service providers were identified in Indonesia for customised Human Resource (HR) training and selected key suppliers participated with brands in a HR management systems workshop hosted in China, with the objective of developing tailored training modules for the industry.

### Government outreach

Government outreach in Central America focused on promoting training opportunities for labour inspectorates and the resolution of compensation for workers of a former subcontractor that closed his factory in El Salvador mid year. In Europe, meetings with labour inspectors took place in Tunisia and Turkey regarding labour contracts and training in local labour laws. In Asia, meetings with various Labour ministries and manpower departments addressed specific factory cases, contract labour conditions, minimum wage adjustments and changes and interpretation of local regulations.

## Enforcing compliance

### Enforcement guidelines

In 2005, we issued the enforcement guidelines to our suppliers. The guidelines cover the principles of enforcement of the SOE, and those sanctions or remedies we will apply where the SOE is breached. Such sanctions or remedies include:

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

### Warning letter system

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

On any given issue, three warning letters will usually result in an immediate recommendation to terminate. In very serious cases, a single letter will be issued advising our suppliers that SEA is recommending to our Sourcing department that the business relationship be terminated. Our Legal department would then follow-up with a formal notification of the end of the business relationship.

In total, in 2005, 10 warning letters were issued, all to suppliers in Asia. This is 19 fewer than in 2004.

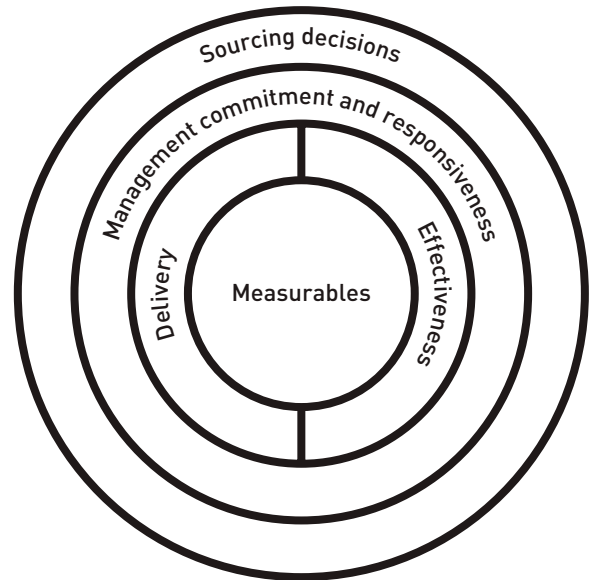
For more about terminations and pre-production audits see the performance data section.

## Rating our suppliers

The new SOE KPI was completed in 2005, and implemented with key global suppliers. Mainstreaming of the KPI started in Q4 with a desktop exercise that will re-evaluate suppliers for the 2006 SEA work plan, and continue into 2006 with actual rating exercises as part of the monitoring activities. The KPI's units of measure are:

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

Additional 2005 activities for the Key Performance Indicator included planning for the assimilation of the factory ratings with Sourcing's factory KPIs.



## Case studies

We include here three case studies that illustrate how we are working with suppliers to improve their compliance performance. These suppliers are all involved in manufacturing football products:

- Increasing management commitment at Sports Gear, Vietnam
- Independent review of compliance practices in football production, Pakistan
- Health and safety improvements at Trikotek Tekstil knitwear factory, Turkey.

### Increasing management commitment at Sports Gear, Vietnam

Vietnam is a key sourcing country for the adidas Group, with 17 footwear, apparel and accessories and gear factories making various products for a number of different markets. Like many other countries in South-east Asia, the local worker population is managed mostly by Taiwanese, Korean, Malaysian and Singaporean manufacturers. In step with Vietnam's development, our suppliers are going through a period of rapid growth. In recent years, a new wave of migrant workers have moved from north and central Vietnam to the south where our suppliers' factories are located. This creates a demanding set of communication and industrial relations issues that need to be managed very carefully.

### Healthy competition

To help our suppliers in Vietnam handle the rapid changes, the SEA team has introduced a system of peer reviews. Elsewhere in the region, the SEA team has led several years of regular workshops, discussions groups and on-site training for factory SOE coordinators. In Vietnam, we've taken this to the next level. Peer reviews and the subsequent healthy competition between suppliers are starting to drive management commitment rather than top down pressure from buyers' compliance teams. Each factory 'competes' to host, design, and manage workshops, cross-auditing exercises and training programmes. Our staff act as observers and provide technical support where necessary.

### Increased commitment

This form of constructive peer pressure has contributed to a significant improvement in the attitudes and management commitment to the SOE programme at Sports Gear. The change is particularly encouraging because Sports Gear has one of the most sophisticated facilities in Vietnam, manufactures footwear products for FIFA World Cup™ but was not a top SOE performer. The factory has hired a full-time compliance professional to manage ongoing labour and HSE issues on the factory. At the same time, reluctance to participate in compliance initiatives has been replaced by a growing awareness that not only should the factory participate in such projects, but that it should be an industry leader in Vietnam. Management has fully supported:

- the SOS occupational health training project  
[see Suppliers and workers – approach on health & safety]
- the MSI reproductive health and HIV/AIDS initiative  
[see Community affairs case study]
- a worker satisfaction survey and communications needs assessment
- SEA training to pilot the new strategic monitoring process  
[see Suppliers and workers – monitoring compliance].

Given the increasing levels of industrial disputes and other labour actions by workers in Vietnam, Sports Gear management has repositioned itself over a relatively short period and is now better able to manage and protect its 8,700 (and growing) strong workforce.

### Independent review of compliance practices in football production, Pakistan

For the past 70 years, Pakistan has been a major supplier of hand-stitched footballs. The town of Sialkot, in the Punjab region, is the main centre for production. The presence of child labour came to light in the mid 1990s and was addressed through an industry-wide initiative supported by the ILO, FIFA and UNICEF. As a result, an independent child labour monitoring body which is now self-governing, was established in 1997. The underlying issues of poverty, employment and access to schooling were addressed through a combination of educational and social development programmes. See Sudhaar case study in the Community affairs section.

#### About the stitching centres

adidas places orders for hand-stitched footballs with three main suppliers who produce the ball components and inspect, pack, and ship the balls. The stitching of the balls is contracted to dedicated stitching centres in the rural community surrounding Sialkot. adidas has sourced footballs from this region for 32 years.

The stitching centres workforces vary in size from 20 to 450 workers. The larger centres are generally located close to or within the grounds of the main suppliers. These suppliers operate a total of 70 stitching centres but due to the volume of orders for FIFA World Cup™ products the number of stitching locations increased to a peak of 121 in October 2005. Of these, 18 are women-only stitching centres.

### Reviewing and improving performance

A significant challenge for us in 2005 has been maintaining the integrity and security of the supply chain through the FIFA World Cup™ peak production period. We commissioned an independent review of the monitoring programme after SEA monitoring visits in 2004. We identified the need to improve the payment of social benefits to stitchers in regular employment, and to strengthen monitoring practices and stitching centre coverage during the anticipated peak production periods.

The review highlighted the weaknesses of the current compliance monitoring, with insufficient coordination and cross-checking. A new monitoring model was developed using the combined resources of all three factories monitoring staff, and random verification by adidas SEA and an independent third party. Monitoring activities for checking infrastructure, safety, stock registers, attendance records, wage payments and proof of age were all significantly improved.

The review resulted in an increased frequency of monitoring visits, improved timeliness of reporting, and the identification and resolution of product tracking and labour issues. Some of the substandard stitching centres were closed.

### Health and safety improvements at Trikotek Tekstil knitwear factory, Turkey

The adidas Group has buying relationships with 17 main suppliers in Turkey. adidas has been buying football team scarves from Trikotek Tekstil, a company with 140 workers located in Istanbul since 2003.

As with other Turkish factories, there were a number of health and safety (H&S) non-compliances, including poor H&S management systems, the absence of an H&S policy or coordinator, insufficient emergency preparedness, no fire evacuation drills, and poor knowledge of personal protective equipment (PPE) and chemical handling.

#### Advising as well as auditing

Our audit process not only identifies the root cause of each non-compliance but also incorporates the SEA Health and Safety Guidelines to illustrate the benefits and methods of remediating specific issues. For example, the factory management was not only told to conduct fire evacuation drills, but why and how to do so efficiently. Together with Trikotek's management, SEA developed a detailed action plan that was monitored regularly.

Three months after the initial audit in 2003, a second audit was conducted at Trikotek which revealed some improvements in the factory's H&S conditions. The verification included documentation of their remediation efforts. These promising results emphasised that an effective H&S policy and a coordinator with clear responsibilities and authority were crucial for sustainable improvements.

**Taking responsibility**

Trikotek continued to improve their H&S performance. The new H&S policy and a competent coordinator helped to resolve many other H&S issues quickly and sustainably. Encouraged by the consistency of the improvements, Trikotek applied for OHSAS 18001 in February 2004, and received certification in September 2004. The factory's internal audit team now conducts self-assessment audits on a monthly basis, and has developed systems for emergency preparedness and fire fighting. They have also introduced training to improve the usage of PPE, machinery guarding and chemical handling.

A December 2004 SEA audit of Trikotek revealed the increased compliance with HSE workplace standards and the effective delivery of a management system. The subsequent factory performance rating for HSE was increased from 3 stars to 4 stars.

In conclusion, the improvements at Trikotek resulted from not merely auditing, but follow-on activities for policy development, staff competency training, policy and process implementation, and verification and reporting. This holistic cycle of H&S management is now guided by the OHSAS 18001 process.

Trikotek was the first of our Turkish suppliers to successfully achieve OHSAS 18001 certification. Their example has raised the bar and we are now seeing a general improvement of HSE conditions throughout the local supply chain.

# Standards of Engagement

**Authenticity. Inspiration. Commitment. Honesty.** These are the core values of the adidas Group. We measure ourselves by these values, and we measure our business partners in the same way.

Consistent with these brand values, we expect our partners – contractors, subcontractors, suppliers and others – to conduct themselves with the utmost fairness, honesty and responsibility in all aspects of their business.

The SOE is a tool that helps us choose and retain business partners who follow workplace standards and business practices consistent with our policies and values. As a set of guiding principles, they also help identify potential problems so that we can work with our business partners to address issues of concern as they arise. Business partners will develop and implement action plans for continuous improvement in factory working conditions. Progress against these plans will be monitored by the business partners themselves, our internal monitoring team and external independent monitors. Specifically, we expect our business partners to operate workplaces where the following standards and practices are followed.

## I. General Principle

Business partners shall comply fully with all legal requirements relevant to the conduct of their businesses.

## II. Employment Standards

We will only do business with partners who treat their employees fairly and legally with regard to wages, benefits, and working conditions. In particular, the following guidelines apply:

**Forced Labour:** Business partners shall not use forced labour, whether in the form of prison labour, indentured labour, bonded labour, or otherwise. No employee shall be compelled to work through force or intimidation of any form.

**Child Labour:** Business partners shall not employ children who are less than 15 years old, or who are younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

**Discrimination:** While we recognise and respect cultural differences, we believe that workers should be employed on the basis of their ability to do the job, rather than on the basis of personal characteristics or beliefs. We will seek business partners that share this value, and that do not discriminate in hiring and employment practices on grounds of race, national origin, gender, religion, age, disability, marital status, membership of associations, sexual orientation, or political opinion.

**Wages and Benefits:** Business partners shall recognise that wages are essential to meeting employees' basic needs and some discretionary payments. In all cases, wages must equal or exceed the minimum wage or the prevailing industry wage, whichever is higher, and legally mandated benefits shall also be provided. Wages shall be paid directly to the employee in cash or check or the equivalent, and information relating to wages shall be provided to employees in a form they understand. Advances

and deductions from wages shall be carefully monitored, and shall comply with law.

In addition to their compensation for regular working hours, employees shall be compensated for overtime hours at the premium rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding their regular hourly compensation rate.

**Hours of Work:** Employees shall not be required, except in extraordinary circumstances, to work more than sixty hours per week, including overtime, or the local legal requirement, whichever is less. Employees shall be allowed at least 24 consecutive hours off within every seven-day period, and shall receive paid annual leave.

**Freedom of Association and Collective Bargaining:** Business partners shall recognise and respect the right of workers to join and organise associations of their own choosing, and to bargain collectively. Where law specifically restricts the right to freedom of association and collective bargaining, the employer must not obstruct alternative and legal means for independent and free association and bargaining. In any case the employer shall implement systems to ensure good communication with employees.

**Disciplinary Practices:** Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

## III. Health and Safety

A safe and hygienic working environment shall be provided, and occupational health and safety practices, which prevent accidents and injury in the course of work or as a result of the operation of employer facilities, shall be promoted. This includes protection from fire, accidents, and toxic substances. Lighting, heating and ventilation systems should be adequate. Employees should have access at all times to sanitary facilities, which should be adequate and clean. The factory must have safety and health policies that are clearly communicated to the workers. These should apply to employee residential facilities, where provided by employers.

## IV. Environmental Requirements

Business partners should aim for progressive improvement in their environmental performance, not only in their own operations, but also in their operations with partners, suppliers and sub contractors. This includes: integrating principles of sustainability into business decisions; responsible use of natural resources, adoption of cleaner production and pollution prevention measures, and designing and developing products, materials and technologies according to the principles of sustainability.

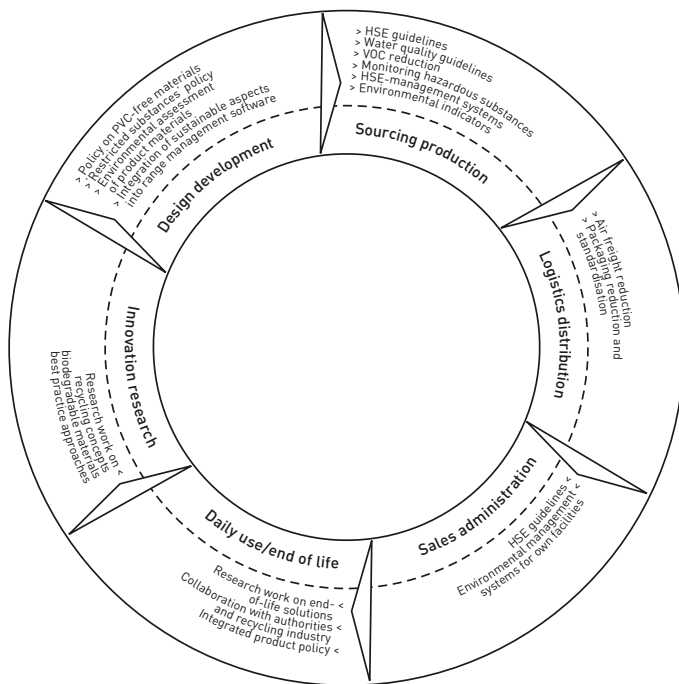
## V. Community Involvement

We will favour business partners who make efforts to contribute to improving conditions in the countries and communities in which they operate.

# Environment

We have a responsibility to look after the natural environment both for people today and in the future. Environmental impacts occur at all stages of the lifecycle of our products, from product design to disposal. Our efforts are focused on the manufacture of our products at our suppliers' sites where more than 95% of our products are made.

We adopt a systems-based approach to managing our environmental impacts in our own production facilities and in our supply chain. Within the life cycle of our products there are two points in the product design and development process where we can make a significant difference to the company's environmental footprint. The first is in improving the materials that go into our products, and the second is in tackling pollution in factories.



## adidas production sites

The adidas Group operates four production sites around the world. These factories comply with local laws and regulations, and have HSE activities that are managed by designated HSE coordinators. Corporate Guidelines for Health, Safety and Environment have been produced to support facility managers and HSE coordinators.

In 2005, there were no legal prosecutions reported for environmental liabilities at the Group's own sites.

For environmental statistics of our major sites please go to the Performance data section.

## Scheinfeld

With 52 workers, this shoe factory produces premium football boots and made to measure shoes, but also runs a warehouse and flock transfer printing department. The site obtained certification according to EMAS II in 1998 and 2004. In 2005, an external verifier conducted an annual environmental review of this site.

## adidas-Suzhou

adidas-Suzhou, part of our subsidiary in China, produces garments for the international and local market. The factory has been certified to ISO 14001 since 2002. The production manager, plant manager, office manager and administrator are qualified internal ISO 14001 auditors.

The monthly average energy consumption rose about 16% from 2004 to 2005, due to enlarging the raw material warehouse area about 70%. An external consultant checked wastewater quality and noise level in July 2005, with all values meeting local standards.

## Carlsbad TMaG

By implementing the so-called 6S approach (Sort, Straighten, Shine, Standardise, Safety, Sustain) our site in Carlsbad, California restructured the office and workplace layout and improved its environmental and health and safety performance.

## Administration offices

Most of our sourcing offices, sales subsidiaries, warehouses and administration sites have insignificant environmental impacts compared to the environmental effects of manufacturing products in factories. HSE activities are managed by designated HSE coordinators or the respective facility management.

Besides adhering to specific local laws, Corporate Guidelines for Health, Safety and Environment have been produced to

## Managing environmental impacts

The best way we can influence the environmental impacts at our suppliers' factories is to encourage the introduction of environmental management systems. Achieving certification to a management system requires a supplier to approach the issue with rigour and the appropriate resources. Environmental management systems commit the supplier to continuous improvement.

We use our own sites as examples of best practice and provide suppliers with training and guidelines.

- adidas production sites
- Administration offices
- Our suppliers' sites
- Case study Evervan, China, achieving much and inspiring others.

support facility managers and HSE coordinators. These guidelines provide best practice advice for workplace ergonomics, eco-purchasing of office materials and resource savings. For example, from mid-2006 onwards, we will be using a new generation of office paper. The paper contains chlorine-free recycled materials but provides a high-value look as requested by our design departments.

### Building in environmental efficiencies

We consider environmental issues whenever we design new buildings or refurbish existing ones. For example, when our global headquarters in Herzogenaurach was redesigned from old military barracks, specific measures were taken which included using recycled building materials, avoiding energy-intensive air conditioning and installing innovative heating and cooling systems in the employee restaurant STRIPES.

At adidas-America in Portland we participated in an engineering study with the state of Oregon to determine energy savings by changing the current boiler systems.

### Our suppliers' sites

We encourage our suppliers to follow our lead and implement management systems. Many of our Asian footwear factories have led the way in establishing environmental management systems. And increasingly apparel and accessories and gear factories are following their lead.

See the table of suppliers with environmental and health and safety certifications in the Performance data section.

### Evervan, China, achieving much and inspiring others

In passing the ISO 14001 in the year 2003, and adapting our Guide to Best Environmental Practice, several initiatives and projects were finalised at the Evervan site, one of our major footwear suppliers in China, specifically:

- Improved emissions, dust and noise control in work areas
- Tighter management of chemicals
- Replacement of diesel oil as the primary energy source in the canteen
- Creation of a new waste management system
- An energy conservation project.

Energy savings were 15% for compressors, 21% for high energy devices such as mixers and rubber mills. A condensed steam recycling system saves 814 tonnes of water and 15.1 tonnes of diesel per month, paying for itself in 30 days.

Overall Evervan reported the following figures:

- Saved water: 23.8% [ml/pair/month]
- Saved electrical power: 2.68% [kWh/pair/month]
- Saved diesel oil: 42.5% [Kg/pair/month]
- Saved gas: 47.6% [kg/pair/month]
- Ratio of reused waste material: 47.6%.

### Apache II, China, learning from Evervan

Results at Evervan have inspired other suppliers. For example, the new Apache footwear factory integrates Evervan's findings

into their new facility. Compared with their existing site, several hundred litres of diesel and 30 tonnes of fresh water per day have been saved by establishing a steam recycling facility and a thermal recycling unit, which uses the warm air produced by the diesel generators.

## Improving materials

Our approach is to seek to design out polluting materials and processes and increasingly to adopt sustainable materials instead.

You can read about the various initiatives we have in place that help us achieve our goal of improving materials.

- Material selection policy
- Sustainable cotton
- Recycled materials
- Eliminating PVC
- Control and monitoring of restricted substances
- Integrated Product Policy
- Product safety.

### Material selection policy

We do not source raw materials from any endangered or threatened species as defined by the International Union for Conservation of Nature and Natural Resources (IUCN) in their red list. We also do not use leathers from animals that have been inhumanely treated, whether these animals are wild or farmed.

Materials supplied to the adidas Group must meet local regulations. We ask our suppliers to ensure that:

- Materials be non-toxic in use and disposal
- Using materials does not cause toxic emissions during the manufacturing process
- Products are manufactured under the best possible conditions using the best available technology.

### Sustainable cotton

We have investigated using certified organic cotton, which is expensive and more difficult to find. It also does not sufficiently address the biggest environmental issue with growing cotton, which is excessive water use.

We are now party to an initiative called 'Better Cotton' that seeks to train cotton farmers to adopt a more sustainable approach to farming. This is consistent with our general approach to build capacity in our supply chain. Together with other brands, NGOs and environmental organisations we have initiated a five-year plan, which aims to create and implement a set of better cotton standards and practices for the mainstream cotton growing industry.

Participating companies are reviewing their own sourcing arrangements, looking for examples where all links on the supply chain benefit, from farmer and spinner to garment manufacturer and retailer. Finding these win-wins and encouraging more arrangements like them is crucial to

achieving the project's goals to get as many buyers behind this concept as possible and so create a critical mass demanding better cotton.

### Recycled materials

A pilot project in Vietnam experimented with recycling waste rubber soles to make new shoes and soles. To meet quality standards, different mixes of new and recycled material were tried and feedback from the customer was considered. But even though no major quality problems occurred, this concept was not applied as a global policy for all rubber applications. Reasons for this are significant colour and design limitations in applying this technology. The approach will be continued for certain rubber designs depending on the model of shoe.

### Eliminating PVC

In 2000, we decided to eliminate PVC from our products. Alternatives have been found and introduced for most uses. However, in a few countries, alternatives are not available so some local production of athletic footwear products still uses PVC sporadically.

In 2005, we continued to engage with material scientists to understand the environmental impact of chlorine-based materials. These materials are widely used in the industry as PVC-replacements. The consultations are important so we can anticipate environmental developments at an early stage. We have started to review the materials used in footwear products to determine a potential substitution wherever technically and practically possible.

### Control and monitoring of restricted substances

Restricted substances are those that cause harm or are suspected to cause harm to human health or the environment. Our policy is that suppliers must avoid using restricted substances.

In 2005, we have further updated and extended our existing policies and internal procedures for control and monitoring of restricted substances 'A-01 Requirements' to ensure that products are environmentally safe. Policies have been subject to review by scientific experts and even environmental groups.

Materials supplied to the adidas Group must meet the strictest local standards globally. We ask our supplier to ensure that:

- Materials are non-toxic in use and disposal
- Using materials does not cause toxic emissions during the manufacturing process
- Products are manufactured under the best possible conditions using the best available technology
- Materials meet sourcing standards of retailers, customer expectations and those recommended by consumer organisations.

We inform our material suppliers regularly about new scientific findings and developments. They must prove that materials comply with our standards by providing test reports from independent external test institutes on a regular basis. Development and production samples are checked randomly.

Read our A-01 Requirements in the Environment section of our website.

### REACH draft EU legislation

We have been carefully observing draft EU legislation related to chemicals called REACH (Registration, Evaluation and Authorization of Chemicals). As a company committed to sustainable practices and meeting consumer needs, we believe that the REACH initiative is an important step towards increased transparency in the use of chemical substances and preparations that result in safer products.

Due to the uncertainty about the final structure and specific requirements from REACH, it is difficult to forecast how the legislation will affect international trade agreements, sourcing and production relationships, business administration and small and medium-sized enterprises. We continue to monitor the draft legislation. To better understand the future implications of REACH for our business and to express our views we closely interacted with other brands, the Foreign Trade Association and EC-governmental officials.

### Integrated Product Policy

Integrated Product Policy (IPP) identifies environmental impacts throughout the life cycle of products and, with stakeholder cooperation, explores solutions to these impacts that benefit both the environment and business. The strategy for IPP complements existing environmental policies.

adidas has followed the IPP approach in a pilot study of athletic footwear products supported by the Environmental Ministry of Bavaria. Working with the environmental consultancy INTECHNICA, the project covered all stages of the product's lifecycle, from the extraction of natural resources, through to re-use or disposal. Involving adidas representatives from many different functions, a football boot model was selected and all relevant data regarding the environmental impact of this product from inception to disposal was collected.

### Results

The cumulative environmental impact of the boot was calculated as well as identifying the stages of the lifecycle that cause the largest impact and how we might reduce those impacts. We were also able to quantify changes in the cumulative environmental impact if materials, components or manufacturing processes were changed. The calculation tool can therefore be used as an additional decision-making aid for material selection, design and development.

### Developments in 2005

A new football boot for launch in 2006 was screened against IPP principles during its development in 2005 to field-test the applicability of this innovative evaluation tool. Due to significant construction differences and distinctive performance aspects it is impossible to directly compare data from this new product and the originally selected model. However, we were able to establish a calculation process that will allow us in future to compare products with the same construction complexity and to draw conclusions about their relative environmental footprint.



## Product safety

To ensure product quality and consumer-safe products, all materials and product samples are tested in accordance with standardised material and product testing specifications and procedures.

In 2005, we strengthened the internal procedures for reviewing concepts and prototypes for safety and environmental impacts.

Innovative product launches like the adidas\_one were checked for compliance with existing and upcoming legal requirements and we took corrective action where necessary.

In 2005, there were no re-calls of products due to failures in product safety.

## Tackling pollution

We provide support for our suppliers with guidelines and have a long-standing initiative to reduce VOC emissions. We also seek to address the CO<sub>2</sub> emissions from transporting our goods.

- Support for suppliers
- Environmental indicators
- Reducing VOC emissions
- Waste management strategy
- CO<sub>2</sub> emissions from transport and travel.

## Support for suppliers

Our approach is to help our suppliers reduce the environmental impacts in their factories through advice and support. In 2000, we issued our Health, Safety and the Environment (HSE) guidelines, which have been followed by a more specific Guide to Best Environmental Practice in 2002. Highlighting best practice both inspires and practically explains how our suppliers can improve their performance.

In 2005, we conducted specific needs assessments among our suppliers to understand their environmental priorities that differ significantly from product complexity and production processes at sites. Many reported that energy consumption was one of their main concerns. The drastic increase of oil prices has affected energy costs and the high demand in energy has resulted in power shortages in factories in China, where several of our suppliers' factories are located. In 2006, we will continue to focus our support on building capacity about energy and resource management for which we will commission external experts.

## Environmental indicators

A detailed set of indicators has been developed, and established mainly in our footwear factories to measure, track and analyse the environmental footwear operations. Differences in the technical complexity of the various product models in production will always cause deviations in the data collection and interpretations.

The process of data completeness and accuracy, however, matured to a level, that enabled us to calculate the average

consumption of key resources per pair of sport shoes produced by our key footwear suppliers in Asia, covering more than 95% of adidas footwear production.

## Performance of adidas shoes

- Energy use is 2.93 KWh/pair
- The amount of waste water per pair is 0.057m<sup>3</sup>
- Waste ratio in product in per cent: 10% of the raw leather and 12% of the synthetic upper material. (These figures are calculated at a stage in the process before the waste material is fed into a waste management programme.)
- Average VOC consumption per pair is 20.5g.

The indicator system is now a reliable management tool for our footwear suppliers helping them to not only measure resource consumption but also identify potential savings and set reduction targets. We will continue to assist them in maintaining these tools so they can realise these potential savings.

## Reducing VOC emissions

Since 2000, we have been committed to reducing emissions of VOCs in footwear factories in Asia. Our target is average VOC emissions of 20 grams/pair of shoes. VOCs – volatile organic compounds – are found in solvents used in the manufacturing process. They can cause breathing difficulties and other health complaints.

Our footwear suppliers have reduced VOC emissions from 140 grams/pair in 2000 to 20.5 grams/pair in 2005. We measured actual exposure in the workplace by asking workers to wear monitors during their working day. Emissions were far below the threshold limit value, usually peaking at 30%, and occasionally 60%. These results suggest workers are not being exposed to dangerous levels of VOCs but nonetheless we remain committed to further reductions.

See the Performance data section for more figures on VOC reduction.

## Waste management strategy

Several in-depth studies and surveys have taken place, mostly with our footwear factories. An external consultant conducted investigations with our footwear partners in China, Indonesia and Vietnam. Considering the different waste amount and sources, but also the specific local circumstances, the outcome showed, that it is necessary to:

- further enhance the system to measure the waste volumes
- develop more in-house recycling systems
- consider local conditions and barriers when developing new waste management approaches.

The study also recommended pooling waste material from various factories to create greater volumes and to develop organisations that could provide a vertically integrated service from collection and sorting to recycling.

## CO<sub>2</sub> emissions from transport and travel

The fuel used to transport goods to market creates carbon

dioxide emissions, a major contributor to climate change. Our policy is to minimise the impacts from transport. Air travel creates the most CO<sub>2</sub> emissions so is the focus of our efforts.

Carbon dioxide emissions are measured in grams carbon dioxide per kilometer each tonne travels (grams CO<sub>2</sub>/km t):

- Sea freight contributes 17.5 grams carbon dioxide CO<sub>2</sub>/km t
- Road freight by truck contributes 147 grams CO<sub>2</sub>/km t
- Airfreight contributes 903 grams CO<sub>2</sub>/km t.

In 2005, air freight transport decreased due to better control of production deadlines compared with last year when we had to ship products in time for both the Euro 2004 Football Championships and the Olympics. See the Performance data section for the full breakdown of percentages of freight types used to ship adidas products.

#### Offsetting the SEA team's impact

As a global business, with over 80 offices worldwide and a global supplier base, air travel is widely used by adidas employees. As an internal project, the SEA team has recorded all their air travel activities in 2005, quantified the respective carbon dioxide emissions as 34.2 metric tonnes, and fund a carbon-offset project which meets the quality standard defined by the World Wide Fund of Nature (WWF). This project funds the construction of small local bio-gas facilities in Nepal, which help to improve the local infrastructure and living conditions by more safe sanitary conditions for the people, protecting the local wood and wildlife resources.

## Case studies

In this section you can read how we have applied our approach on environmental issues to two particular factories in our supply chain. One case study looks at the gains made after implementing an environmental management system, and the other looks at tackling air pollution.

- Implementing environmental management systems in a football factory, China
- Tackling air pollution in football production, Thailand.

### Implementing Environmental Management Systems in a football factory, China

Besides the high volumes of apparel and footwear products, China has become an important production country for sports equipment, and in particular for footballs.

Saving resources is crucial to meeting business targets. Kuan Ho Sporting Goods Co, Ltd., one of our major manufacturing partners for machine-stitched footballs is located in Guangdong, China. The factory employs more than 6,500 workers and administration staff. The supplier has invested in Lean manufacturing and has made significant improvements to its workplace conditions and general health and safety. After some initial challenges the management committed to the SOE

programme and Kuan Ho is now established as a long-term partner. They have developed a comprehensive HSE management system within the factory.

The supplier tackled their specific environmental challenges by working towards certification to ISO 14001 and OHSAS 18001, which they achieved in January 2005. There have been a number of specific measures taken.

#### Environmental improvements

Following our Best Environmental Practice Guidelines helped Kuan Ho to reduce average energy consumption by nearly 20% from 2004 to 2005 (from 1.70 KWh/Unit to 1.36 KWh/Unit) on single production units. These savings enabled the factory to reduce the amount of additional diesel needed by 53% on average.

The chemical storage room was completely rebuilt. Anti-leakage systems on the floors, an improved air circulation and exhaust system, and better management of the chemicals in the production rooms all minimised exposure for the workers. A new surface ionization system, instead of using solvents for cleaning, reduced the VOC (volatile organic compounds) emissions by about 80 Kg per day.

These measures not only reduced the site's environmental impact they also led to a 5% decrease in the product defect rate.

#### Training and health surveillance

Comprehensive HSE worker training sessions were conducted during the year, with 4,932 workers participating. A specific health check with 746 workers by an external medical service provider took place in April 2005. By implementing the HSE system, occupational injuries reduced from 95 in 2004 to 50 in 2005.

### Tackling air pollution in football production, Thailand

While the national legislation on health and safety and labour issues is clear, Thailand struggles to implement it. Government agencies tend to focus on the regulation of heavy industries. As many of the light industrial factories producing apparel and accessories are in zones dominated by heavy industry, they remain relatively low priorities for local safety inspectors.

#### About the factory

Molten Thailand Ltd has been a key ball supplier to adidas over the last four years. Molten and adidas have developed technology for new ball products including the Roteiro ball for the Euro 2004 Football Championships and adidas selected Molten as the main ball supplier for the FIFA World Cup 2006™.

Molten has 960 workers making branded and unbranded balls in two production buildings. The building producing branded balls for adidas is new and has good safety measures in place. The other older building, where non-branded products are manufactured, had major non-compliances with our standards,

putting workers' health at risk. It did not matter that this was not the building where our products were made. We wanted to see our health & safety standards met across the whole site.

### **Working together to address the issues**

In 2004, SEA and a local consulting firm, SERV Consulting, worked with Molten's management to curb critical problems with ventilation and chemical safety. Using strategic monitoring's approach to identifying root causes, the SEA team uncovered gaps in engineering control and worker awareness. SERV was subsequently invited to assess the company's Human Resource Management system and complete the training needs assessment.

Our standards focus on restricting the use of harmful substances. As a result we banned the use of toluene, a key ingredient in glue used for patching ball panels. This presented Molten with the challenge of meeting the same quality standards but with less toxic chemicals.

In July 2004, Molten's senior management committed to eliminating toluene and introduced other less harmful solvents. SEA monitoring findings showed consistent efforts to improve ventilation systems and the factory management engaged a local chemical safety consultant and committed to ISO 14001 certification. In 2005 we provided training to Molten management and supervisors and Molten's safety team were trained in measuring against chemical thresholds. In September 2005, Molten had completely eliminated toluene from the production process at this site and was certified to ISO 14001.

### **Improvements well received**

There is certainly more joint effort required to further improve the health and safety situation in Molten. However, the initiative of the past two years has clearly been a success:

"In the past, I felt that adidas production plant was safer than my plant because of poor ventilation system. Now I feel that my production building has an improved working environment. Chemical usage is limited to only one-day supply, which relates to better ventilation." Worker's quote

On the FIFA World Cup™, one worker stated that:

"I am so proud of my country that we produce World Cup product. I think making World Cup Ball is more difficult than the Roteiro Ball but I take it as a challenge. I am proud to see them on the television and newspaper and I keep telling everyone that I am part of this special ball".

# Employees

Our people are crucial to our success. Achieving our goal to be the global leader in the sporting goods industry depends on the talents, enthusiasm and dedication of our employees. Here we define our HR functions and goals, and our HR programme. We ensure worker-management communications through employee involvement in decision-making.

The employees have a responsibility to adhere to the employee code of conduct; and as employers we have a moral responsibility to ensure their health and safety. This includes developing an HIV-AIDS policy. The way we reward our staff has to be fair and related to our, and their, achievements.

We aim to develop our employees with opportunities for career progression, while striving to create a climate that celebrates our diversity, promotes global mobility and helps our staff achieve a healthy work-life balance. We also offer our staff access to a wide range of company sports activities.

## HR functions and goals

HR management is a core function within the Group's global organisation, managed by Global HR, with the global director reporting to the CEO. Within the Group, the Global HR organisation manages the following key functions:

- HR management and support to key functions – Global Operations, Global Marketing, Corporate Services, Regions and Brands
- Global Services, including reward management and mobility management
- training and development
- company sports programme and work-life balance initiatives in Germany
- corporate community programme in Germany
- cross-functional issues, for example, HR information systems, communication, personnel and marketing.

Global HR focuses on the following goals:

- to create a working environment that stimulates team spirit, passion, engagement and achievement
- to instill a performance culture based upon strong leadership
- to make the adidas Group the employer of choice.

## HR programme

Our people and their talents are critical to our continuing commercial success. With more than 15,900 employees working in more than 80 countries we need to develop HR strategies that can be implemented globally. The first step is to identify the common challenges we face wherever we operate:

- talent management – to identify, recruit and retain the most talented people and develop career opportunities for them tailored to the specific needs of our company

- employee-oriented leadership – to strengthen the alignment of management and employees by improving communication and enhancing employee feedback systems
- performance management – to instill a result-driven management culture that supports up and downward performance feedback for continuous learning and improvement
- motivation – to provide reward and incentive schemes as well as a working environment that promotes employees' commitment, engagement and wellbeing
- communication – to improve transparency and efficiency in communication at all levels of the Group and wherever we operate.

To rise to these challenges, our programme focuses on five core processes of HR management: attracting, recruiting, developing, rewarding, and retaining staff.

## Employee involvement

Employee empowerment, participation and co-determination play an important role in managing employee relations within the adidas Group.

The Group has established works councils at adidas in Germany and other European subsidiaries. The members of the works councils are elected by the work force.

Three representatives of the works council are also members of the Supervisory Board. The Supervisory Board advises and supervises the Executive Board in the management of the adidas Group. It is involved in all decisions of fundamental importance to the Group and is responsible for appointing and dismissing members of the Executive Board.

Location determines the form of employee participation:

- HQ Works Council
- European Works Council
- Employee participation outside Europe.

### HQ Works Council

In 2005, the HQ works council focused on the following projects:

- Job-grading and Performance/Compensation System (PEP)
- Work-Life Balance/Family Audit
- Increase in working hours to guarantee employment at Scheinfeld and Uffenheim until 2010

- Annual performance bonus for eligible employees
- Supporting personnel transfers resulting from the reorganisation at Scheinfeld
- Internal agreements on the use of internet, (mobile) phone and E-mail, on reintegration of employees coming back from parental leave, and on on-call service.

### European Works Council

The European Works Council (EWC) currently consists of nine delegates from seven European countries. The fruitful collaboration between the European and HQ Works Council and the SEA team continued in 2005. Members of the HQ Works Council, the European Works Council and representatives of the Trade Unions are regularly updated on progress of the compliance programme. During 2005, members of the Works Council were also invited to participate in factory audits and the evaluation of a Worker-Management Communication Project.

### Employee participation outside Europe

While employees of the adidas Group in Herzogenaurach and Portland have enjoyed access to top management in a variety of forums, creating effective communication channels throughout the regions at Liaison Office (LO) and factory level is a constant challenge.

Our internet-based 'Ask the Management' forum gives employees throughout the regions an opportunity to raise concerns and post questions to top management. More direct communications are being established in the sourcing offices throughout Asia, based on the Guangzhou model detailed in our Social and Environmental report 2003. The Guangzhou management-employee committee is now in its fourth year and has incorporated elected representatives from Apparel, Accessories and Gear as well as the original footwear sourcing representatives.

In 2005, a number of key issues were discussed and in most cases resolved, including:

- organising transport to our operations centres
- providing medical insurance for staff located in different cities
- improving the housing accumulation fund and social retirement fund coverage
- introducing flexible working hours in the LO
- choosing the venues and activities for company outings.

### Employee code of conduct

We have a Code on Business Ethics and Conduct to help strengthen general governance. The Code serves as the cornerstone of ethical and social behavior in day-to-day operations, and is aligned with the core values of the company.

In 2005, the code has been subject to further detailed review. It will be part of a Global Compliance Programme and is planned to be implemented by compliance managers worldwide, with the involvement of the Works Council.

The code will cover key issues such as:

- Treatment of business partners and third parties
- Handling of information
- Complaints
- Special rules for dealing with financial matters.

### Health and safety

Everyone has the right to work in a safe environment. This has been recognised the world over and as a global Group, our operations have to comply with a wide range of different legal and cultural imperatives. Naturally, practices and procedures will vary from one facility to another, but the core requirements remain the same.

These core requirements are fully explained in a set of Corporate Guidelines for Health, Safety and Environment for facilities of the adidas Group. These guidelines especially help facility management of mainly administrative offices to manage health and safety issues in an effective way. Furthermore, larger administration facilities of the adidas Group and the very few production sites owned by the Group have comprehensive risk, Health, Safety and Environmental management systems coordinated by local facility management. In 2005, activities focused on travel security and health and safety and precautionary measures related to avian flu.

#### World Of Sports, Herzogenaurach, Germany

This administration facility with 1,400 employees has effective occupational HSE management coordinated by a professional health and safety officer and a company doctor.

Besides our regular and permanent activities, a special 'safety week' took place in July 2005, which included training sessions on general accident prevention as well as all kind of workplace safety issues. Staff were trained in handling fire extinguishers and a simulator showed people the fatal effects of alcohol and drugs while driving.

In 2005, two accidents occurred on the way to the workplace. There was one occupational accident, and three accidents while doing sport.

#### TaylorMade Assembly Plant, Carlsbad, USA

Around 700 workers assemble golf clubs in this factory, co-located with the TaylorMade administration offices. By implementing the so-called 6S approach (Sort, Straighten, Shine, Standardise, Safety, Sustain) this site re-structured the office and workplace layout and improved its environmental and health and safety performance. In 2005, there were six work-place accidents resulting in 25 lost days.

#### adidas apparel factory, Suzhou, China

adidas-Suzhou, part of our subsidiary in China, produces garments for the international and local market. The industrial accident logbook showed no accidents for 2005.

### **adidas footwear factory, Scheinfeld, Germany**

This shoe factory produces premium football boots and made to measure shoes, but also runs a warehouse and flock transfer printing department. After being awarded first prize by the German Trade Association in 2000 for its advanced health, safety and environmental systems, the Scheinfeld factory has maintained a high level of workplace occupational health and safety for its 52 employees. Each workplace in the production area is carefully reviewed for health and safety risks. This year there were three accidents.

### **HIV-AIDS policy**

At the end of 2003 we began to develop an HIV-AIDS policy for the Group, drawing on information from the International Labour Organization (ILO). In 2004, a suite of documents were prepared comprising a draft corporate policy, general guidance on HIV-AIDS, an employee guide, and guidelines for managers on workplace care and support.

These materials were field tested by the Thailand LO of the adidas Group and adidas Thailand Limited, a sales and marketing subsidiary. A joint HIV-AIDS Committee, comprising senior management, administration and HR personnel, was established to oversee this exercise. The committee members were liaising with a local NGO – the Thai Business Coalition for HIV-AIDS – to organise HIV-AIDS awareness training for the local office and retail staff.

In 2005, the guidelines were reviewed by the company doctor, who proposed improving the privacy and confidentiality measures in the reporting mechanisms. In 2006, we plan to roll out the policy and guidelines in countries severely affected by HIV-AIDS.

### **Remuneration**

Our Global Salary Management System (GSMS) sets employees' salaries in a clear, understandable and measurable way. Managers and the HR department can identify gaps between current and target positions within an employee's salary band and point out how the employee could reach the target position. The adidas Group also offers various attractive variable compensation systems:

- Pay for Performance bonus programme – more than 20% of all employees receive this variable salary component with an average of 20% of their remuneration linked directly to individual and Group performance
- Long-Term Incentive Programmes (LTIP) – these include a Management Stock Option Plan (MSOP) that links the compensation of approximately 450 key executives worldwide to the adidas share price and adidas's position in a peer group index. Additional long-term incentive programmes are focused on special projects and turn-around initiatives and are in place in various regions and brands

- Other benefits include our 401-K pension plans in the USA and the PP 2000 pension plan for our employees in Germany. In 2005, 1,219 employees participated in the latter, which represents an increase of 10% compared to the previous year.

### **Developing employees**

We aim to identify, recruit and retain the most talented people and develop career opportunities for them.

#### **Go for Gold**

Just like athletes, employees of the adidas Group need a training plan to build on their strengths, overcome their own challenges and improve their technique to achieve their goals. We base our efforts on the three success drivers 'Leadership Excellence', 'Performance Management' and 'Talent Management'.

#### **Leadership Excellence**

Leadership in what we do and how we do it is key to our success. Our Executives and Managers enforce Leadership Excellence and instil a culture of performance. They are the main drivers and sponsors of the company's Performance and Talent Management.

#### **Performance Management**

Performance Management is the platform of our success. Evaluation tools like PEP ('Performance Evaluation and Planning') measure employee's current performance based on job and competency requirements. Employee performance levels serve as an indicator for base salary development and variable compensation, supporting our goal of paying for performance. PEP also covers the setting of individual business targets and the planning of training and development activities.

For both individual and team performance improvement we offer targeted support based on need: for example, basic skill training in team development or business coaching. All aiming for one goal: to train and develop our employees to be 'Fit for Today'.

#### **Talent Management**

With our Talent Management tools and processes we identify employees at all levels who have the potential to become leaders in the business – our Talents. In order to prepare them for new and more complex future roles they take part in targeted development programmes covering:

- Innovative and state-of-the-art input on programme topics
- Individual preparation for new competency requirements
- Fostering of global networking
- Knowledge transfer into the current and future business.

Actively managing internal succession contributes to our competitive position.

## Diversity

Over the years, the workforce of the adidas Group has evolved to reflect the growing diversity of our communities, our varied fields of activity as well as our truly global marketplace. We will remain committed to understanding, valuing and incorporating this diversity into the corporate culture of the adidas Group. We believe that diversity helps us to sustain a competitive advantage, to foster motivation and to ensure organisational success and stability. Our approach to diversity is to:

Acknowledge the richness of commonalities and differences we share; the intrinsic worth of each unique employee; that our products and our contribution to sports and the athletes that compete therein are enhanced through these multiple and different perspectives;

Aspire to create respect for and appreciation of each other; to further increase diversity within the adidas Group and to foster a spirit of openness and partnership amongst our employees and within our communities.

Act to assure an environment that welcomes, respects and embraces diversity; to capitalise on the value of a diverse work force; and to achieve excellence through our products and our people.

## Global mobility

Global presence and success in worldwide markets require a workforce willing and able to work around the world. For those employees who are interested in working in different countries, we have a programme of international assignments to worldwide locations within the adidas Group. Most of these take place between Germany, USA, China, Hong Kong and The Netherlands. The adidas Group provides training and cultural preparation to familiarise the relocating professionals and their families with their new living and working environments.

In brief:

- the Headquarters of the adidas Group employs more than 300 international employees from more than 40 countries
- between 50 and 100 international assignments at various locations begin annually
- 350 employees are permanently on international assignments.

## Work-life balance

Every employee's quality of life should be improved by working for the adidas Group, so we have a responsibility to address work-life balance. We aim to harmonise the commercial interests of the adidas Group with the private and family needs of our employees, thereby assuring the mutual benefit of both. The programme includes family-oriented services, flexible work time and place, people development and leadership competence

related to work-life balance. Hertie Stiftung, the third largest private foundation in Germany, audited our programme to identify and initiate ways to improve family-oriented personnel management. We were re-audited in 2004 and awarded the official certificate as a Family-Friendly Employer.

## Company sports

We offer our employees a wide range of sports activities at our major sites including team sports such as football and basketball, fun and fitness courses such as fencing and Tae Boe, and health and wellness courses such as yoga, healthy back, and swimming.

At our headquarters in Herzogenaurach, Germany, our Company Sports department also organises several sports events such as mountain biking, horseback riding, kayaking, skiing and ski tours and the biathlon. Special events such as one-week sports camps for employees' kids, transalpine mountain bike tours, and the yearly Berlin marathon weekend (with a suitable training programme prior to the event) are also available.

At our headquarters in Herzogenaurach and Portland our employees have access to a company gym.

# Community affairs

Our Group's community affairs programmes are as diverse as the more than 80 countries where we operate. In managing our community affairs programme we have deliberately adopted a decentralised approach, recognising that local people in our subsidiaries and Group entities best understand the needs and cultural sensitivities of their communities.

Although varied in form, many current initiatives are aimed at supporting kids and youths, sports in a social context, preventive health projects and immediate relief efforts for people in need. We have three complementary pillars supporting our community affairs goals: community involvement, employee involvement and corporate giving and we list examples in these sections. Some initiatives are described in more detail under case studies.

## Managing community affairs

We want our community affairs work to be as innovative as our efforts to improve workplace conditions. To achieve that we have first clarified internal ownership:

Internal Group activities are overseen by a network of employees from around the business. This network is coordinated by Community Affairs, a function that has been fully embedded in the Social & Environmental Affairs team

External supply chain activities are managed by the Social and Environmental Affairs (SEA) team directly.

### Group activities

#### Developments in 2005

Developing a direction and strategy for Corporate Giving and other Community Involvement activities on Group level was one of our major ambitions last year. To meet this goal we established the Community Affairs function at headquarters as part of the Social & Environmental Affairs team.

Our focus is working with a network of people from adidas Group entities around the world who are driving social improvements in their local communities. Community Affairs has been tasked to:

- provide support and assistance to subsidiaries and Liaison Offices, especially for important projects where they are seeking advice
- increase transparency through improved reporting mechanisms.

#### Next steps for 2006

Due to the various needs in different countries, we follow a decentralised approach in Community Affairs. The challenge with this approach is to improve our reporting mechanisms so we can form a clear view of activities at the local level, and better analyse and report on them.

In those countries where adidas Group entities and our suppliers both run social programmes, we will seek to build links between the two with the goal of increasing the programmes' impact.

### Pillars of the programme

The adidas Community Affairs programme is built on three pillars: community involvement, employee involvement and corporate giving. In each community the specific design of these three pillars is determined by local cultural, economic and social factors.

We are selective and support projects that show sustainable benefits to the communities where we live and work.

### Supply chain activities

Surveys have shown us that many of our suppliers are involved in local projects that are valued by their communities. However, we are aware that we could achieve much more. Working with Marie Stopes International (see the case study below) has helped us to see that the adidas Group can act as a catalyst for change – change that would otherwise not occur – by partnering with a capable third party and our suppliers on a specific community and worker-oriented social programme.



## Initiatives

This table shows the initiatives described on this site, grouped by type of initiative and region.

	Europe/Middle East	Asia-Pacific	Americas
<b>Community Involvement</b>	'Impossible is nothing' – cause-related marketing initiative, adidas Italy 'Franconian International School' Community Involvement, adidas headquarters Germany 'Diambars' Community Involvement, adidas France and Senegal	'JinQiao 8K Running event' – Grassroots Community Project, adidas China 'Tsunami Relief Efforts', adidas Korea	'Junior Achievements' – educational programme, adidas Panama 'Earn your Stripes' Scholarship Program, adidas America 'Golf Fore Your Heart Pro-Am Tournament', TMaG Headquarters, US 'Terry Fox' cause-related marketing project, adidas Canada
<b>Employee Involvement</b>	'Blood donation' from employees, adidas Dubai	'adiLIFE' Corporate Volunteering Programme, adidas Australia 'UDAYAN Care' Corporate Volunteering, adidas India 'Special Olympic' Corporate Volunteering and Product Giving, adidas Japan	'aCT!' adidas Community Team, adidas America
<b>Corporate Giving</b>	'Product Donations', adidas Spain '6 villages for 2006' Cash donation, adidas headquarters Germany and South Africa	'Cash Donation to orphanages', adidas Liaison Office Indonesia	'Charitable Contributions Program' TMaG Headquarters, US 'Product Donations to children and disabled', adidas Argentina

## Community involvement

Community involvement for us ranges from conventional community projects and cause-related marketing initiatives to immediate relief efforts for people in need.

### Cause-related marketing initiatives

The adidas Group joins with charities or good causes to market products that make a positive impact on key social issues and achieve business objectives.

### Relief efforts

In 2005, we responded to several natural disasters around the globe, for example the Tsunami in South-east Asia, Hurricane Katrina in the US and the earthquake victims in Pakistan.

Read about community involvement initiatives in our three operating regions:

- Europe/Middle East
- Asia-Pacific
- Americas

### Community involvement in Europe and the Middle East

#### 'Impossible is nothing' cause-related marketing initiative, adidas Italy

In 2005, adidas Italy brought to life our campaign 'Impossible is nothing' by creating opportunities to participate in sport where none had previously existed. Ten Italian cities were chosen.

For example, the floor of the prison gymnasium in Monza was laid, and a fencing piste for the Nisseno Fencing Group of Caltanissetta was supplied.

#### 'Franconian International School' Community Involvement, adidas Headquarters Germany

The Franconian International School, close to the adidas headquarters, has approximately 150 students from more than 20 different ethnic backgrounds. It aims to educate their students in an international environment to high academic standards and to create an atmosphere and spirit that respects all cultures and promotes responsible citizenship. Since it opened in 1998, many employees of the adidas Group have enrolled their children here and the company has been involved in all aspects of school life and management.

#### 'Diambars' Community Involvement, adidas France and Senegal

The Diambars initiative has been developed by a group of professional football players in France and establishes sports schools for children from the African continent. The Diambars adidas Project aims to support the training of sports people, to contribute to the development of mass sport in Senegal and promote the value of learning and education.

In 2005, a highlight was the pupils' summer school visit to adidas France in Landersheim.

### Community involvement in Asia-Pacific

#### 'JinQiao 8 K Running Event' Grassroots Community Project, adidas China

adidas China is the title sponsor of the JinQiao 8 K running event held at JinQiao community in Pudong of Shanghai. We promoted healthy living through building up a grass roots running community from the event. A total of 1,489 people participated in the run.

#### 'Tsunami Relief Efforts', adidas Korea

With the objective to play a role as a global citizen, adidas Korea donated to UNICEF. The aim was to support the organisation's relief efforts in meeting the humanitarian challenges after the Tsunami in Indonesia. We decided to collaborate with UNICEF in order to effectively direct relief funds to those most affected by the disaster.

The company decided to match employee donations in order to reinforce individual personal commitment while acting as a socially responsible company.

### Community involvement in the Americas

#### 'Junior Achievements' educational programme, adidas Panama

Since 2001, in collaboration with Jóvenes Emprendedores adidas Panama has been promoting understanding of the development of a global economy for children at elementary school and high school. The main goal is the formation of leaders within a business culture from an early stage by educating and inspiring the youth so that they value free enterprise and understand the global economy and the world of business.

adidas Panama supports this project not only through corporate giving but also through employee involvement.

#### 'Earn Your Stripes' Scholarship Program, adidas America

Since 2000, the adidas America 'Earn Your Stripes' Scholarship Program annually awards 17 financial scholarships to high school seniors from Portland public schools, who demonstrate their commitment and achievement in the areas of academics, athletics and community service. In addition to the financial award, each recipient receives a college kit that includes our product and school supplies.

#### 'Golf FORE Your Heart' Pro-Am Tournament, Taylor-Made adidas Golf, headquarters US

The TaylorMade-adidas Golf 'Fore' Your Heart Pro Am has become the largest local charity golf tournament supported through TMaG Charitable Contributions Program.

TMaG provides products for all levels of team prizes and for individual putting, most accurate drive and long drive contests. At the evening's live auction, a gift certificate is auctioned to the highest bidder for the opportunity to be custom fit for a set of clubs designed to his or her swing specifications.

We also provide a \$15,000 purse for the annual Pro-Am, which is held in conjunction with the tournament. PGA professionals throughout Southern California are paired up with four tournament participants to compete in this spectacular one-day event.

**'Terry Fox' cause-related marketing project, adidas Canada**  
adidas Canada and the Terry Fox Foundation partnered in order to introduce the iconic indigo blue shoe, the adidas Orion TF. All profits of the sale were donated to the Terry Fox Foundation.

Terry Fox was a Canadian runner, who set out to fight cancer that had taken one of his legs. His goal was to raise money for cancer research by running through Canada from east to west, calling his journey the 'Marathon of Hope'. Fox was forced to quit after 143 days of running when his cancer returned, however, along the way he raised the awareness of people around the world. Today, the Terry Fox Foundation remains true to Terry Fox's vision and principles while raising money for cancer research through the annual Terry Fox Run, donations and planned gifts. During this run, Fox wore his favorite running shoe, the 1979 adidas Orion, which adidas provided him with in 1980.

This is the first time the Terry Fox Foundation has partnered with a corporate organisation.

## Employee involvement

Employee involvement supports the company's community affairs goals and objectives by providing meaningful opportunities for our employees to engage with the communities where they work, and may also live.

Read about employee involvement initiatives in our three operating regions:

- Europe/Middle East
- Asia-Pacific
- Americas.

### Employee involvement in Europe and the Middle East

#### 'Blood donation' from adidas employees, adidas Dubai

The Blood Donation Vehicle, provided by the UAE Ministry of Health was with adidas Dubai for one day and after a slow start, and some uncertainty and nervousness, people began to filter into the Blood Donation Vehicle. Even though going through the unpleasant task of giving blood, we bonded with our office neighbours, who joined in from the street, and had a worthwhile, rewarding day.

### Employee involvement in Asia-Pacific

#### 'adi-LIFE' Corporate Volunteering Programme, adidas Australia

adidas Australia embraces social responsibility and actively commits to benefit the Australian community through support and involvement in sport.

Every employee can become an adi-LIFE volunteer in order to:

- Create and participate in volunteer activities that improve communities
- Promote education
- Promote physical activity through sport.

Seek out other motivated adi-LIFE employees to become volunteers to share common experiences and the camaraderie of everyone with whom we work.

#### **'UDAYANA CARE' Corporate Volunteering, adidas India**

India is a poor country. Our management team wanted to give something back to the community and has joined hands with UDAYAN CARE, a registered charity working with orphaned and abandoned children. Our mission for helping the disadvantaged kids is to:

- Create a mentoring environment by involving staff
- Providing financial assistance in-kind.

We invite these children to our office on weekends to spend some fun time on sporting activities. This includes coaching and mentoring by the staff.

Udayan care has four homes in Delhi that support 80 kids. These are residential homes for long-term care of disadvantaged children through a programme called L.I.F.E: Living in Family Environment. Women of vision volunteer to set up and sometimes even fund these homes and parent the children. These homes are in busy, middle class neighbourhoods, where the community takes ownership of them.

#### **'SPECIAL OLYMPICS' Corporate Volunteering, adidas Japan**

The Special Olympics is an international organisation that offers children and adults with intellectual disabilities the opportunity to participate in society through sport.

We feel the Special Olympics convey adidas values of passion, authenticity and honesty in sport. adidas feels that the funding money is important, but the volunteer spirit of adidas staff is even more important for successful community programmes.

#### **Employee involvement in the Americas**

##### **aCT-adidas Community Team, adidas America**

As part of the Company's commitment to improving the communities in which we operate, adidas America has developed an Employee Volunteer Program called aCT! aCT! is the adidas Community Team, an employee volunteer programme that encourages employees to extend the adidas brand values of commitment and inspiration to helping those in our community reach their potential. Employees receive time away from work to help in the community by volunteering with non-profit community partners. Employee volunteer efforts are recognised with a financial contribution to the community partners when accumulated employee volunteer hours reach a total of 60 hours per six-month period. The programme was launched in autumn 2005 at an on-site volunteer event at the adidas Village (US headquarters) in Portland where the programme will be piloted throughout 2006.

## **Corporate giving**

Donations at the adidas Group can take the form of financial contributions, product contributions and in-kind goods and services. Globally, in 2005, the adidas Group received 13,153 donation requests and supported 40 requests with a cash grant and 1,243 with product donations.

Read about corporate giving initiatives in our three operating regions:

- Europe/Middle East
- Asia-Pacific
- Americas

#### **Corporate giving in Europe and the Middle East**

##### **'Product Donations', adidas Spain**

In 2005, adidas in Spain donated to various social service organisations, including the Spanish Special Olympics, SOS Children's Villages in Spain and an Orphanage in Jaen. Furthermore, product donations were sent to Nicaragua and Indonesia to help people in need.

#### **Corporate giving in Asia-Pacific**

##### **'Cash Donation to orphanages', adidas Liaison Office, Indonesia**

Several Indonesia Liaison Office employees and their families visited five orphanages between July and September 2005 to distribute money that was raised in an internal sample sale. The employees spent some time with the orphans there. The staff representative is devising a new initiative for 2006.

#### **Corporate giving in the Americas**

##### **'Charitable Contributions Program' Taylor-Made adidas Golf, US**

TMaG receives a vast amount of requests for donations – an average of 3,000 annually and therefore, developed the 'Charitable Contributions Program'.

Along with donating products, the Charity department offers the sale of TaylorMade-adidas Golf products to qualified charities at a discounted fee of up to 20% below wholesale pricing. A portion of the profit generated by the sale is donated back to the charity in the form of additional products. The remaining profit is applied to the cost of running the programme, including wages and benefits for two full-time employees and one part-time employee, with the remaining balance contributed to TMaG at year-end. The end result is a totally self-funding programme designed to create a win-win effect for everyone. The charities are able to raffle, auction or use the product they've purchased to raise funds that easily eclipse the price charged by TaylorMade and the charity programme has completely covered all of its costs.

Since its inception in 2001, TMaG's Charitable Contributions Program has grown in popularity and leads the industry with this innovative approach. The programme allows us to enjoy a larger presence at a greater number of fundraising events, spreading goodwill for TMaG throughout the country year round. Our willingness to partner with charities has proven to be highly valued across the nation, resulting in strong brand loyalty among thousands of golfers, their families and friends.

### 'Product Donations for children and disabled', adidas Argentina

In 2005, adidas Argentina donated products to various social organisations in order to help groups in our community that cannot acquire this type of product. The focus was children and the disabled.

#### Applying for a grant

In 2005, we developed Guidelines on Corporate Giving so we could help the applicants, better manage the large number of donation requests and remain true to our values in the approval process. In the guidelines we defined areas where we would and would not get involved, the application procedure and grant requirements.

You can find our Corporate Giving Guidelines in the Community affairs section on our website.

Organisations seeking support should send their request to the subsidiary or Liaison Office in their home country or the closest office. More information about office locations is available on our website in the About us section.

## Case studies

Here we describe some of our initiatives in more detail:

- Reproductive health project with Marie Stopes International
- Sudhaar education and school infrastructure programme, Pakistan
- adidas America and football (soccer)
- SOS Children's Villages

### Reproductive health project with Marie Stopes International: The project so far

In 2003, we reported on our developing partnership with Marie Stopes International (MSI). Based on the research and survey work that was conducted at supplier factories in Vietnam in the first quarter of 2004, a broad-scale project aimed at addressing the fundamental sexual and reproductive health of workers has been developed. During the survey and research phase, it became clear that the two fundamental problems for workers are:

- lack of knowledge and awareness in relation to managing their own health
- lack of access to reproductive medical services.

Research and survey work has also started in Dongguan in south China, to assess the needs of workers, factory management and local authorities in respect of reproductive health amongst the largely migrant workforce.

#### China programme

In 2004, the Chinese authorities fully acknowledged the growing impact of HIV-AIDS. Given the growing support for programmes that address the increasing health risks for China's urban workforce, the MSI China programme will identify the best methods for protecting workers against this disease and poor reproductive health in general. Underpinning the programme is the concept of personal responsibility.

At relatively minimal cost to factory management, a significant number of workers can effectively be taught how to protect themselves and improve their overall health and wellbeing.

During the course of 2005, MSI was heavily involved in the roll-out of several critical projects relating to HIV-AIDS in Yunnan, one of the provinces with the highest rate of infection in China, and the opening and development of its new China MSI clinics. Nonetheless, we still managed to convene a workshop at the adidas offices in Guangzhou, facilitated by MSI, to bring the relevant stakeholders together for the purpose of reviewing the needs assessment conducted at two different suppliers. We received feedback from the factories, the Guangdong Bureau of Health, the Family Planning Association, the China CDC, and experts from the Migrant Labour Research & Service Center of Zhongshan University and the Guangdong Womens College.

Following the workshop, both MSI and adidas have been conducting outreach with a number of different organisations to enlist their participation, in order to make this a truly multi-sectoral, private-public engagement. A proposal has been submitted by MSI for a programme covering the needs of workers in Guangzhou and Dongguan, with the potential to reach thousands of factories and 100's of thousands of workers. At this stage, there is some possibility that the programme may be pursued under the umbrella of the China Health Alliance, through the efforts of the Global Health Initiative. More information about the project and an agreed framework for implementation will be available in the second quarter of 2006.

#### Vietnam programme

In January 2005, the implementation phase of the Vietnam programme started, with the establishment of a permanent reproductive health clinic to service workers and the surrounding communities. In addition to this, a mobile team travels out from the clinic to the factories to provide a range of services including training of factory clinic staff, basic reproductive clinical services from a mobile van, distribution of information and educational materials, and direct training of volunteer workers as peer group leaders. Marie Stopes also assist factory clinic staff to develop a proper referral network with local clinics, hospitals and pharmacies, as well as promote the MSI clinic and its unique philosophy on health services and standards.

Privacy, confidentiality and counselling of the patient or client are still somewhat novel concepts in Vietnam.

'MSI and adidas share a common vision that solutions must be long term, sustainable and cost effective, with direct benefit for factory workers as well as factory owners.' Marie Stopes International

By the end of 2005, the MSI static clinic had been operating effectively in Binh Duong province for several months with numbers of factory worker clients far exceeding expectations. Several short documentary news-items and public service announcements by local authorities and media helped raise awareness about the clinic and the need for these types of

services to be made more readily available to migrant workers. Local authorities in Binh Duong province have been extremely cooperative and supportive of the clinic, ensuring smooth operations, and this was mostly due to the excellent government relations conducted by MSI.

At the same time, the MSI staff in Ho Chi Minh city has been working with all individual suppliers in each of the three product categories (footwear, apparel and accessories & gear) to map-out activities and timelines for their factory clinic staff training and peer education programme roll-out. In March of this year, adidas and MSI will agree on and start tracking a number of key success indicators and other useful information, such as: number of local community clients vs factory clients accessing the static clinic; rate of use of mobile services vs use of static clinic by factory workers; the general health status of clients as well as other critical information, eg education level, current living conditions; and sick leave or absences from the factory due to gynaecological or hygiene problems or unwanted pregnancy. It is also anticipated that other buyers and donors may be brought into the programme over the course of 2006 to extend its impact.

#### **Sudhaar education and infrastructure project, Pakistan**

Siakot is the centre of the football stitching industry in Pakistan, which has in the past employed underage workers. To discourage this, standards of education and access to schooling have had to be improved in rural communities in the area, which is what the local NGO Sudhaar has done with its Education and School Infrastructure programme. Originally supported by FIFA, the adidas Group has fully funded the programme since 2002.

Sudhaar has successfully motivated parents to keep their children in school, developed model schools, provided teacher training, and carried out educational planning for the District Government.

Over 17,000 children in 104 government schools have directly benefited from improved school facilities and access to better education. This includes the children of football stitchers, who make up 20% of the rural population in the areas where these schools are situated. The programme also has a strong capacity building component: strengthening the education provided by local government and fostering the involvement of parents and rural communities.

'I am working in this school as head teacher since 1988. I have got training regarding leadership role and school management, and pedagogical skills in Science, Mathematics, Urdu and English under Sudhaar-adidas quality education programme; with the extensive motivation Sudhaar developed and polished our attitudes towards education planning, resources mobilisation and our teaching style as well. I have provided basic facilities to my school kid through the Sudhaar programme.'

**Ms. Zubaida Kousar, Head Teacher Govt. Girls Primary School, Mandair Kothay**

#### **adidas America and football (soccer)**

adidas US works with football-affiliated organisations and athlete partners to promote access to football for disadvantaged, at-risk youth and kids. For example, our long-time athlete partner, Eddie Pope, created his Foundation with the idea of using football to develop the mind, body and spirit of disadvantaged youth. The adidas Group makes financial and product contributions to help the foundation achieve its mission.

AmericaScores is a community-based, education organisation that uses football to teach urban children to apply the teamwork and responsibility they learn on the field to their work in the classroom. The adidas Group donates products in order to outfit all the children. Additionally, as part of a long-standing partnership with the US Youth Soccer Association, our financial and product contributions support TOPSoccer, a training and team placement programme designed to bring the opportunity of learning and playing football to youth with disabilities.

Those initiatives not only help to promote the football game itself, but help young people to develop their character and temperament.

Eddie Pope has been an adidas athlete partner since 1996, while the relationship with AmericaScore started in 1998 and with TOPSoccer in 1997.

#### **'SOS Children's Villages', adidas Headquarters Germany and South Africa**

'6 villages for 2006' was officially launched by SOS Children's Villages and FIFA in 2004, with the aim of raising funds to construct six new SOS Children's Villages. They will be built in Brazil, Mexico, Nigeria, South Africa, Ukraine and Vietnam. The campaign will run until the end of the final match of the 2006 FIFA World Cup™ in Germany. The adidas Group finances the construction of one family house of the SOS Children's Village in Rustenburg, South Africa.

HIV/AIDS presents a serious threat for the entire social and economic development in South Africa: 40% of all deaths between the ages of 15 and 49 can be traced back to AIDS. The number of orphans has risen astronomically in the past years due to AIDS and all local health authorities, relief organisations and politicians need to make a joint effort to get the catastrophic living situation of thousands of children under control.

SOS focuses on supporting children affected by HIV/AIDS through its Social Centres and Children's Villages. The adidas Group is helping to build the new SOS Children's Village in Rustenburg, in the north-west of the country. The city has 53,000 inhabitants and is located in one of the quickest growing regions of South Africa. However, speedy growth has its negative side: the number of people in need of help, and especially of children in need of help, is rising quickly.

In the SOS Children's Village in Rustenburg, children who are on their own and in need will receive family oriented, long-term care. This will give them the chance of a positive future and the opportunity to grow up with a sense of security.

# Performance data

As part of our commitment to transparency, this section contains data about our performance during 2005. Under group profile, we present data on how many products we manufactured in the year. Most of the data included here is about our suppliers. It includes data on the size of our supply chain as well as the number of audits we conducted, and those conducted by independent monitors. How well our factories scored against our standards, details of the training sessions we ran, and the extent of our Pre-Production Audits are also included.

The environment data section covers management system certifications obtained by footwear suppliers in Asia, VOC levels in footwear factories and what freight method was used to ship our products.

Key statistics about our employees completes our presentation of data.

Please note that because the acquisition of Reebok closed on 31 January 2006 we do not include any Reebok figures in our reporting for 2005. As the divestiture of Salomon closed on 19 October 2005 figures about Salomon operations are excluded from the tables posted in the performance section, if not otherwise stated.

## Group profile

You can find out more about the adidas Group in About us on our website.

For figures on our financial performance, please go to the investors section of our website.

### Total number of adidas products manufactured<sup>1</sup>

Product Range	2005	2004	2003
Footwear (millions of pairs)	117.2	108.67	111.29
Apparel (millions of units)	170.1	157.64	146.72
Hardware <sup>2</sup> (millions of units)	34.8	31.09	27.63

<sup>1</sup> Excluding TaylorMade sports equipment

<sup>2</sup> Accessories and gear

### Total number of TaylorMade-adidas Golf products manufactured<sup>1</sup>

Product Range	2005	2004	2003
<b>TaylorMade Hardware</b> (millions of units)			
Woods	3.53	2.38	2.10
Irons	4.14	2.62	2.82
Putters	0.45	0.24	0.29
Kids' Clubs	0.00	0.05	0.03
<b>TaylorMade Softgoods</b> (millions of units)			
Bags	0.24	0.26	0.33
Gloves	0.50	1.29	1.80
Balls <sup>2</sup>	5.98 <sup>4</sup>	4.57 <sup>4</sup>	4.46 <sup>3</sup>
Caps	0.48	0.6	0.61
Accessories	0.09	2.04	1.11

<sup>1</sup> Excluding adidas Golf

<sup>2</sup> Reflected as dozens

<sup>3</sup> Balls for 2003 produced by Dunlop Slazenger

<sup>4</sup> Balls for 2004/05 produced by Dunlop Slazenger and GTS

The drop in quantity for Softgoods from 2004 to 2005 is caused by the shift of production and sales in the Americas to a third party.

## Suppliers

### Number of suppliers and our own factories in 2005

In 2005, we worked with 701 factories operated by independent business partners (excluding factories of our licensees). Supply chain consolidation remains a major part of our strategy to form strong partnerships with our suppliers. By placing larger orders more frequently with particular suppliers we can have a greater influence on their social compliance.

Comparing 2005 with 2004, we have fewer factories in Portugal (-23) and Romania (-7). We have more suppliers in Turkey (+9) and Argentina (+6).

More than half (56%) of our factories are located in Asia, 23% in the Americas and 21% in Europe and Africa. 19% of all these factories are in China.

The Asian factories tend to be the largest: more than 89% of the 460,000 workers employed in all our suppliers' factories are in Asia. Read more about the structure of our supply chain.

#### Number of suppliers and our own factories in 2005<sup>1</sup>

Region	Brand	No. of Suppliers (excl. own factories)	No. of own factories	Total
Asia	adidas	354	1	389
	TaylorMade <sup>2</sup>	33	1	
Americas	adidas	124	–	164
	TaylorMade <sup>2</sup>	39	1	
Europe	adidas	147	1	148
	TaylorMade <sup>2</sup>	–	–	
<b>Total</b>		<b>697</b>	<b>4</b>	<b>701</b>

<sup>1</sup> Excluding licensee factories

<sup>2</sup> Including Maxfli and component suppliers

#### adidas licensees in 2005

Product Range	Total no. of licensees	Total no. of factories producing for licensees	No. of countries where production is placed
Apparel	13	99	17
Hardware <sup>1</sup>	4	25	9
Watches	1	6	1
Glasses	1	3	3
Cosmetics	1	4	4
<b>Total</b>	<b>20<sup>2</sup></b>	<b>137<sup>2</sup></b>	

<sup>1</sup> Accessories and gear

<sup>2</sup> 20 licensees located in 10 countries that sourced products from 137 factories in 26 different countries.

#### Number of factories audited in 2005

SEA team members visited supplier factories more than 680 times in 2005. There were 916 audits conducted in 326 factories (301 suppliers plus 25 licensees) during these visits (see the table on page 54 for more information). Each visit can include two audits – one for health and safety and one for labour issues. Read more about our approach to monitoring compliance.

#### Independent FLA Audits<sup>1</sup>

FLA Year	Period	No. of audits <sup>2</sup>
1st	Aug 2001-Dec 2002	42 Audits
2nd	Jan-Dec 2003	13 Audits
3rd	Jan-Dec 2004	12 Audits
4th	Jan-Dec 2005	7 regular FLA audits 5 FLA audits as part of the FLA 'Soccer' project 2 FLA factory visits as part of the adidas SOE programme assessment in 2005

<sup>1</sup> As part of the FLA membership

<sup>2</sup> From 2003 onwards, a new risk method was applied by the FLA, randomly selecting the factories to be independently audited. Hence the reduced number of factories subject to FLA audits.

#### Frequency of factory visits conducted by the SEA team in 2005

As part of our new approach to monitoring compliance, we now visit fewer factories but we visit them more often. Read more about our approach to monitoring compliance.

#### Frequency of factory visits by the SEA Team in 2005<sup>1</sup>

Number of visits	Asia	Americas	Europe
0	140	119	97
1	168	28	50
2	45	10	1
3	17	1	0
4	5	1	0
5 or more	14	5	0
<b>Total no. of factories</b>	<b>389</b>	<b>164</b>	<b>148</b>

example: 45 factories in Asia were visited two times in 2005

<sup>1</sup> Not included are more than 30 visits in licensee factories and visits that were conducted in factories of the Salomon business segment in 2005. Also excluded are visits in inactive adidas and TaylorMade factories.

#### Training in 2005 divided by region and type

We aim to integrate supplier compliance into our core operations and build capacity in our supply chain. To achieve this we conducted 225 training sessions, 65 more than in 2004.

Of these 225, 144 were attended solely by suppliers and factory workers, 64 were for adidas staff and 17 were attended by both suppliers and adidas employees.

#### Trainings in 2005 divided by region and type\*

Region	Type and Number of Training					Total trainings
	General SoE-training <sup>1</sup>	Specific Labour training <sup>2</sup>	Specific HSE training <sup>3</sup>	Environmental training <sup>4</sup>	Strategic Monitoring training <sup>5</sup>	
Americas	12	20	7	0	3	42
Asia	67	20	35	1	1	124
Europe	38	8	5	1	7	59
Total Global	117	48	47	2	11	225 <sup>**</sup>

<sup>1</sup> General SoE-Training: E.g. Practical On-Site Training; Presentations for awareness raising

<sup>2</sup> Specific Labour Training: E.g. Worker-management communication; Sharing Best Practice; Freedom of Association; Factory Overtime System; Grievance & Appeal systems

<sup>3</sup> Specific HSE Training: E.g. Sharing Best Practice; Chemicals in production

<sup>4</sup> Environmental Training: E.g. Hazardous waste treatment; Environmental Best Practice

<sup>5</sup> Strategic Monitoring Training: E.g. Evaluation of compliance systems, administrators, and their efficiency

\* Including trainings in licensee factories and factories of the Salomon business segment

\*\* Including 63 group training sessions

#### Number of audits and trainings

Year	2005 <sup>1</sup>	2004	2003	2002	2001
Audits <sup>2</sup>	916	954	906	1,148	839
Trainings	225	160	206	255	267

<sup>1</sup> Including audits and trainings in licensee factories and Salomon factories

<sup>2</sup> Excluding FLA and other external audits; includes multiple visits in the same factory

#### External audits

In May 2005, the Fair Labor Association (FLA) accredited the compliance programme of the adidas Group.

In 2005, there were seven external, independent monitoring audits by FLA-accredited monitors; five monitoring visits in Asia, one in the Americas and one in Europe. Five of these FLA audits were shared with other brands. Two non-shared FLA audits were conducted by external monitors.

As part of the FLA 'Soccer' Project five additional audits were conducted. As part of the adidas SOE programme assessment in 2005, two more FLA factory visits took place.

On behalf of the licensees, external monitors completed 46 audits in licensee factories. This includes 13 audits that were done by licensee SOE staff.

Two external audits (not FLA and no licensee audits) were conducted on behalf of the adidas Group.

#### External Audits<sup>1</sup>

	Licensee audits <sup>2</sup>	External audits on behalf of the adidas Group
2004	60	2
2005	46 <sup>3</sup>	2

<sup>1</sup> Excluding FLA audits

<sup>2</sup> Audits conducted in licensee factories by external monitors and internal licensee staff

<sup>3</sup> Includes 13 audits conducted by internal licensee SOE staff

#### Ratings for international and local active supplier factories, including licensee factories

The table below summarises the performance of our suppliers against our SOE using our old five-star system. This was still in use in 2005 as we began the transition to our new KPI. It reflects the lowest score of either HSE or labour performance of each supplier.



**The five grades of our factory rating system are:**

- 1 star** There are numerous severe non-compliances. The factory has been given notice that business will be terminated unless there is immediate improvement
- 2 star** There are some non-compliance issues and the factory is responding to the action plan slowly or with reluctance. The factory is monitored regularly.
- 3 star** There are minor non-compliance issues, and the factory is responding to the action plan positively.
- 4 star** Generally there are no non-compliance issues, and there are some best practices in place, confirmed in documentation.
- 5 star** There are no non-compliance issues and all of the factory's management system and practices are in place, confirmed in documentation.

Read more about how we rate our suppliers in the Suppliers and workers section.

**2005 Factory Rating – International and local active supplier factories, including licensee factories<sup>1</sup>**

Apparel			
Labour/HSE standards	Asia C-Rating	Americas C-Rating	Europe C-Rating
1 star	4	0	0
2 star	93	14	16
3 star	44	28	23
4 star	2	0	3
5 star	0	0	0
<b>Total active factories rated in 2005</b>	<b>143</b>	<b>42</b>	<b>42</b>

Hardware <sup>2</sup>			
Labour/HSE standards	Asia C-Rating	Americas C-Rating	Europe C-Rating
1 star	4	0	0
2 star	31	1	0
3 star	10	1	3
4 star	0	0	0
5 star	0	0	0
<b>Total active factories rated in 2005</b>	<b>45</b>	<b>2</b>	<b>3</b>

Footwear			
Labour/HSE standards	Asia C-Rating	Americas C-Rating	Europe C-Rating
1 star	0	0	0
2 star	5	1	0
3 star	15	1	3
4 star	1	0	0
5 star	0	0	0
<b>Total active factories rated in 2005</b>	<b>21</b>	<b>2</b>	<b>3</b>

<sup>1</sup> Reflected is the lowest rating of either HSE or Labour performance of each supplier

<sup>2</sup> Accessories and gear

**Number of warning letters issued in 2005**

We issue warning letters when we see an ongoing serious lack of management commitment to improving compliance with our standards. In 2005, we issued a total of 10 warning letters, all in Asia, 19 fewer than in 2004. Read more about enforcing compliance in the Suppliers and workers section.

**Number of warning letters issued to adidas and TaylorMade suppliers in 2005**

Country	1st warning	2nd warning	3rd and final warning and recommended termination	Total warning letters
Cambodia	1	0	0	1
China	2	0	0	2
Indonesia	1	0	0	1
Japan	1	0	0	1
Malaysia	0	1	1	2
Thailand	2	0	0	2
Vietnam	0	1	0	1
<b>Total</b>	<b>7</b>	<b>2</b>	<b>1</b>	<b>10</b>

### Number of business relationship terminations due to SOE problems and rejections after Pre-Production Audit in 2005

We work closely with our suppliers to help them improve their performance. In situations of severe or repeat non-compliance we will terminate our business relationship with suppliers. In 2005 we terminated agreements with three suppliers.

We also work closely with Global Operations to pre-screen potential new suppliers. In total the SEA team conducted 166 Pre-Production Audits, with 133 accepted and 33 factories rejected, two less than in 2004. Read more about how we enforce compliance in the Suppliers and workers section.

### Number of business relationship terminations due to SOE problems and rejections after Pre-Production Audit (PPA) in 2005<sup>1</sup>

Region	Country	No. of terminations per country	No. of rejections after PPA per country	Reasons for termination/rejection
Asia	Bangladesh		1	Poor management systems, excessive overtime, insufficient time recording system, lack of chemical management systems, improper waste water treatment
	China	2	17	Unauthorised subcontracting Poor management systems, falsified working hours and payroll records, coached workers, incorrect payment of wages and benefits, child labour, excessive working hours, no Sunday off, use of banned chemicals, poor house keeping, lack of fire and machinery safety, poor hygiene in kitchen and canteen, poor dormitory conditions
	India		1	No management systems in place, poor labour and HSE conditions
	Indonesia		5	No management systems in place, incorrect payment of wages and benefits, forced overtime, falsified working hours records, poor HSE conditions
	Korea		1	No labour documentation available, poor labour and HSE conditions
	Malaysia	1		Lack of management commitment for improving working conditions, incorrect payment of wages and benefits, discrimination of migrant workers
	Taiwan R.O.C.		1	Lack of management commitment for improving working conditions
Europe	Turkey		4	Limited access to the factory, excessive overtime, insufficient social insurance, incorrect payment of wages and benefits, poor HSE conditions
<b>Global</b>		<b>3</b>	<b>30</b>	

<sup>1</sup> Excluding licensee factories; in 2005, three licensee factories were rejected by the SEA team after a PPA

## Environment

### Certifications obtained by footwear supplier sites in Asia

We encourage our suppliers to implement health, safety and environmental management systems as the best way to internalise a process of continuous improvement against our standards.

Read more about our approach to managing environmental impacts in the Environment section.

### Certifications obtained by footwear supplier sites in Asia<sup>1</sup>

Country	Number of FW suppliers	ISO 14001	OHSAS 18001
China	12	11	11
Indonesia	7	1	1
Japan	1	0	0
Korea	1	0	0
Thailand	1	0	0
Vietnam	4	2	2

<sup>1</sup> Excluding factories from the Salomon business segment and licensee factories

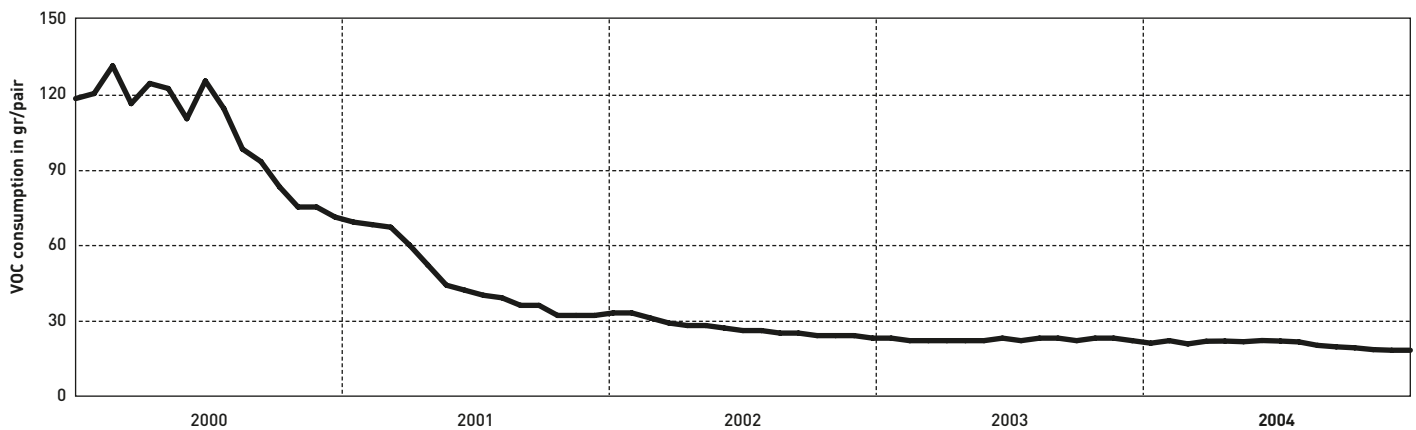
### Reducing VOCs in footwear supplier factories

VOCs are found in solvents used in the footwear manufacturing process. They can cause breathing difficulties and other health problems. Our target is to reduce VOC content to 20 grams/pair of shoes.

Read more about our VOC reduction programme in the Environment section.

The graph below shows the monthly average obtained from our footwear suppliers in China, Vietnam and Indonesia manufacturing more than 95% of our international footwear sourcing volume.

Reducing VOCs in footwear supplier factories



### Freight types used to ship adidas products

Fuel used in transporting goods from where they are manufactured to the selling markets creates carbon dioxide emissions, which are a major contributor to global warming. We aim to minimise the environmental impact of transporting our goods by reducing our use of air freight, the form of transport that causes the greatest emissions of carbon dioxide.

Air freight decreased in 2005 from 8% to 4% of our apparel products, from 5% to 1% for accessories and gear products. This was due to better control of production deadlines compared with last year when we had to ship products in time for both the Euro 2004 Football Championships and the Olympics.

Read more about our efforts to reduce our carbon dioxide emissions in the Environment section.

### Freight types used to ship adidas products<sup>1</sup>

% of products shipped	2005	2004	2003
<b>Apparel</b>			
Truck	22	22	27
Sea freight	73	69	66
Air freight	4	8	6
Sea and air freight	1	1	1
<b>Hardware<sup>2</sup></b>			
Truck	4	4	6
Sea freight	95	91	91
Air freight	1	5	3
Sea and air freight	0	0	0
<b>Footwear</b>			
Truck	3	5	4
Sea freight	96	94	95
Air freight	1	1	1
Sea and air freight	0	0	0

<sup>1</sup> Figures expressed as a percentage of the total number of products transported

<sup>2</sup> Accessories and gear

### Employees

At December 31, 2005, the Group's continued operations employed 15,935 people. This represents an increase of 12% compared with the previous year's level of 14,219. New employees were primarily added in own-retail activities at brand adidas as well at adidas Asia. At the end of 2005, 47% of our total employees were women and 53% were men. Of the executive management positions, 26% were held by women and 74% were held by men.

Index/reporting unit	Total (Global)	adidas	TMaGolf	HQ-Functions <sup>1</sup>
<b>Total headcount (in %)</b>				
Male	53%	52%	68%	47%
Female	47%	48%	32%	53%
<b>Management positions held by (in %)</b>				
Male	74%	70%	86%	78%
Female	26%	30%	14%	22%
<b>Average age of employees (in years)</b>				
	32.1	30.7	36.6	35.5
<b>Employee-turnover (in %)<sup>2</sup></b>				
	9,0%	10,2%	4,3%	6,7%
<b>Annual average length of service (in years)</b>				
	5.0	4.5	4.9	6.6
<b>Average number of training hours per employee/year</b>				
	18.3	17.7	19.1	20,0

<sup>1</sup> Global Marketing, Global Operations, Global Corporate Services (e.g. Legal, Finance, HR)

<sup>2</sup> Voluntary attrition

## Health & Safety statistics for our own sites

Our own sites	Number of employees	Number of workplace accidents	Number of lost days
adidas Footwear Factory, Scheinfeld, Germany	52	Not reported	3
adidas Apparel Factory, Suzhou, China	200	0	0
TaylorMade Assembly Factory, Carlsbad, USA	740	6	25
Headquarters of the adidas Group, Herzogenaurach, Germany	1400	Not reported	6

Number of factories audited in 2005				APPAREL				HARDWARE <sup>2</sup>				FOOTWEAR			
Country	Approx. number of workers per country	Total number of factories <sup>1</sup>	Total number of audited factories	Main factories		Subcontractors		Main factories		Subcontractors		Main factories		Subcontractors	
				Total	Number audited	Total	Number audited	Total	Number audited	Total	Number audited	Total	Number audited		
Australia	457	11	10	11	10										
Bangladesh	1079	1	1	1	1										
Cambodia	19442	4	4	4	4										
China	213546	135	71	78	40			44	22	1		10	7	2	2
Hong Kong	114	4	1	4	1										
India	2384	13	6	11	6			1				1			
Indonesia	76796	34	23	20	13	3	2	4	1	1		6	6	1	1
Japan	3174	52	7	27	5	5		18	2	1		1			
Korea	6928	32	22	17	11			14	10			1	1		
Macau	465	2	2	2	2										
Malaysia	2080	12	3	10	3			2							
New Zealand	123	5	3	4	2			1	1						
Pakistan <sup>3</sup>	2226	3						3							
Philippines	11872	18	7	15	6			3	1						
Singapore	393	4	4	2	2	2	2								
Sri Lanka	875	2	1	1	1			1							
Taiwan	550	10	4	2	2	1		6	2	1					
Thailand	31896	30	21	23	19	4	1	2	1			1			
Vietnam	42311	17	17	8	8	2	2	3	3			4	4		
<b>Total Asia</b>	<b>416711</b>	<b>389</b>	<b>207</b>	<b>240</b>	<b>136</b>	<b>17</b>	<b>7</b>	<b>102</b>	<b>43</b>	<b>3</b>	<b>0</b>	<b>24</b>	<b>18</b>	<b>3</b>	<b>3</b>
Albania	360	1					1								
Bosnia	400	1	1											1	1
Bulgaria	1270	4	1				4	1							
Czech Rep.	150	1					1								
Estonia	50	1					1								
Finland	30	1		1											
France	50	2		2											
Germany	250	3		2								1			
Greece	430	3		3											
Hungary	160	3	2	3	2										
Israel	400	1		1											
Italy	1150	30	6	13	3	13	1	1				3	2		
Latvia	300	2		2											
Lithuania	300	1		1											
Moldavia	1000	1	1				1	1							
Poland	200	2	1					1	1	1					
Portugal	350	6	1	4	1	2									
Romania	1150	4				3								1	
Russia	1300	11	2	10	1	1	1								
Slovenia	50	1		1											
South Africa	2400	18	2	14	2			3				1			
Spain	50	1	1	1	1										
Sweden	30	1		1											
Switzerland	30	1		1											
Tunisia	1400	8	6	1		7	6								
Turkey	10800	37	22	17	12	20	10								
UK	70	1		1											
Ukraine	250	2	2							2	2				
<b>Total Europe</b>	<b>24380</b>	<b>148</b>	<b>48</b>	<b>79</b>	<b>22</b>	<b>54</b>	<b>20</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>1</b>
Argentina	1500	17	2	8	2	4		5							
Brazil	5000	30	9	8	7	4						4	2	14	
Canada	1500	15	3	11	2			4	1						
Chile	200	2		1				1							
Colombia	800	4	1	4	1										
El Salvador	3000	8	7	1	1	7	6								
Guatemala	300	1	1		1	1	1								
Honduras	3000	5	5	1	1	4	4								
Mexico	5000	15	10	6	5	7	5	2							
Peru	500	4	4	3	3			1	1						
Uruguay	50	1		1											
USA	3500	62	2	17	1			39	1	6					
<b>Total Americas</b>	<b>24350</b>	<b>164</b>	<b>44</b>	<b>61</b>	<b>23</b>	<b>27</b>	<b>16</b>	<b>52</b>	<b>3</b>	<b>6</b>	<b>0</b>	<b>4</b>	<b>2</b>	<b>14</b>	<b>0</b>
Total Asia	416711	389	207	240	136	17	7	102	43	3		24	18	3	3
Total Europe	24380	148	48	79	22	54	20	5	1	3	2	5	2	2	1
Total Americas	24350	164	44	61	23	27	16	52	3	6		4	2	14	
<b>Total Global</b>	<b>465441</b>	<b>701</b>	<b>299</b>	<b>380</b>	<b>181</b>	<b>98</b>	<b>43</b>	<b>159</b>	<b>47</b>	<b>12</b>	<b>2</b>	<b>33</b>	<b>22</b>	<b>19</b>	<b>4</b>

1 Excluding licensee factories; factories from the Salomon business segment are not included.

2 Accessories and gear.

3 The number of workers in Pakistan includes stitching centers located within the ground of the facilities.

All three production facilities are subject to the ILO monitoring programme and are audited multiple times a year.

# Reporting

We aim to act responsibly and communicate honestly. Each year we produce a comprehensive and frank report about our social and environmental programme so stakeholders can form a rounded view of our performance. Over the past few years our printed reports had increased in length to the point where we felt they were failing to engage readers. So this year we have shortened our printed report and expanded our online reporting.

Together our report and our website cover all the information that we previously published exclusively in our social and environmental reports. We also intend to update the website during the year, and so move closer to 'real time' reporting. Do contact us with any feedback you have about our new approach.

In this section you can find a Global Reporting Initiative index, our position on verification of the data we report, and a section of reports to download, which includes a pdf of our latest printed report.

## Global Reporting Initiative

To help us identify key issues to present in our report we refer to the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines (2002 version). While we recognise the value of these internationally recognised guidelines, they do not fully take into account the supply chain impacts in the sporting goods industry. For this reason our reports go beyond the GRI's requirements to provide the information relevant to our business.

The GRI index shows what information we have reported and where readers can find it. Most of the information is online under sustainability, but some is elsewhere, including other sections of our website such as About us and in the annual report.

We have presented the GRI index on separate pages as follows:

- GRI index – Vision and strategy
- GRI index – Profile
- GRI index – Governance structure and management systems
- GRI index – Economic performance indicators
- GRI index – Environmental performance indicators
- GRI index – Social performance indicators

Visit the Global Reporting Initiative website at [www.globalreporting.org](http://www.globalreporting.org) to find out more about the Sustainability Reporting Guidelines.

## GRI index – Vision and strategy

1.1	Sustainable development vision and strategy	Challenges and responses
1.2	CEO statement	'Connected by football' report

## GRI index – Profile

2.1	Name of reporting organisation	About us
2.2	Major products, services and brands	Our brands
2.3	Operational structure	About us
2.4	Description of customer groups	About us
2.5	Location of adidas operations	About us
2.6	Nature of ownership	About us
2.7	Nature of markets served	About us
2.8	Scale of reporting organisation	About us

2.9	List of adidas stakeholders	Stakeholders
2.10	Contact person(s) for this report	Contact
2.11	Reporting period	Sustainability
2.12	Date of previous report	Reporting
2.13	Boundaries of the report	Reporting
2.14	Significant changes in size, structure, ownership or products	About us
2.15	Basis for reporting on joint ventures	Not reported
2.16	Explanation of any restatements of information in previous reports	Nothing to report
2.17	Decisions not to apply GRI principles	GRI index
2.18	Criteria/definitions used in accounting for costs and benefits	Not reported
2.19	Significant changes in methods	Suppliers and workers
2.20	Policies and practices on accuracy, completeness and reliability	Suppliers and workers
2.21	Policy for independent assurance	Statement on verification
2.22	Obtaining additional information	Contact

## GRI index – Governance structure and management systems

3.1	Governance structure	About us
3.2	Independent, non-executive Directors	Not reported
3.3	Process for determining the expertise of Board members	Not reported
3.4	Process for identification and management of risks	About us
3.5	Executive compensation and achievement of company goals	About us
3.6	Organisational structure and key individuals for implementation of audit	Mission and values
3.7	Mission and value statements, internally developed code	Mission and values
3.8	Mechanisms for shareholders to provide recommendations	About us
3.9	Identification and selection of major stakeholders	Stakeholders
3.10	Stakeholder consultation	Stakeholders



3.11	and 3.12 Information from stakeholder consultation and its use	Stakeholders
3.13	The precautionary principle	Environment
3.14	Voluntary charters or other initiatives	Stakeholders
3.15	Industry and business associations memberships	Stakeholders
3.16	and 3.17 Policies and systems for managing upstream and downstream impacts and approach to managing indirect impacts	Suppliers and workers
3.18	Major decisions on operational changes	About us
3.19	Programmes and procedures on economic, social, environmental performance	Progress against targets
3.20	Certification pertaining to economic, social and environmental management systems	Performance data

## GRI index – Economic performance indicators

EC1	Net sales	Investors
EC2	Geographical breakdown of markets	About us
EC3	Costs of all materials purchased	Not reported
EC4	Percentage of contracts paid by agreed terms	Not reported
EC5	Total payroll and benefits	Not reported
EC6	Distributions to providers of capital	Not reported
EC7	Change in retained earnings	Not reported
EC8	Total sum of taxes	Annual report
EC9	Subsidies received	Not reported
EC10	Community donations	Community affairs

## GRI index – Environmental performance indicators

EN1	Total materials used (excluding water)	Environment*
EN2	Percentage of waste materials used	Not reported
EN3	and EN4 Direct and indirect energy use	Environment*
EN5	Total water use	Environment*
EN6	Biodiversity	Environment

EN7	Impacts on biodiversity	Environment
EN8	Greenhouse gas emissions	Not reported
EN9	Ozone-depleting substances	Environment
EN10	No <sub>x</sub> , So <sub>x</sub> and other air emissions	Not reported
EN11	Total amount of waste	Environment*
EN12	Significant discharges to water	Environment*
EN13	Significant spills	Nothing to report
EN14	Environmental impacts of products and services	Environment
EN15	Reclaimable product after useful life	Environment*
EN16	Incidents and fines	Environment
EN31	Hazardous waste	Environment*
EN33	Environmental performance of suppliers	Environment
EN34	Environmental impacts of transportation	Environment

\* We have referred to programmes in place to address these issues in our supply chain. Information on our performance has not been reported or has been reported only partially.

## GRI index – Social performance indicators

### Labour practices and decent work

LA1	Workforce breakdown	Performance data
LA2	Net employment creation	Performance data
LA3	Employees represented by trade union organisations	Employees
LA4	Policy and procedure relating to consultation with employees	Employees
LA5	Notification of occupational accidents and diseases	Employees
LA6	Joint health and safety committee	Employees
LA7	Injury, lost day and absentee rates	Employees
LA8	Policies and programmes on HIV/AIDS	Employees
LA9	Average hours of training per year	Performance Data
LA10	Equal opportunity policies and programmes	Employees
LA11	Composition of senior management	Performance Data

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## Human rights

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HR1	Policies and guidelines dealing with human rights	Suppliers and workers
HR2	Consideration of human rights impacts as part of investment decisions	Suppliers and workers
HR3	Policies and procedures to evaluate human rights	Suppliers and workers
HR4	Global policy preventing discrimination	Employees
HR5	Freedom of association	Suppliers and workers
HR6	Policy excluding child labour	Suppliers and workers
HR7	Policy to prevent forced and compulsory labour	Suppliers and workers
HR8	Training on policies and practices about human rights	Suppliers and workers

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## Society

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S01	Policies to manage impacts on communities	Community affairs
S02	Policies to address bribery and corruption	Employees
S03	Policies to address political lobbying and contribution	Not reported

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## Product responsibility

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PR1	Policy for preserving customer health and safety	Environment
PR2	Policy relating to product information and labelling	Not reported
PR3	Policy relating to customer privacy	Not reported

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## Statement on verification

We recognise that some stakeholders want companies to ensure the content and data disclosed in their sustainability reports are 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. At this stage therefore we do not feel that a report verification would 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 does contain 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 OSHAS standards.

See also our Statement on disclosure and transparency of factory data on our website under Statements.

## Reports to download

In this section of the website you can download all six of our social and environmental reports to date as well as the Environmental Statements of our Scheinfeld factory.

### Pdf of website content

This year we have expanded our online reporting to supplement our printed report 2005. We recognise that there may be some readers – we imagine them to be specialist CSR professionals – who wish to have hard copies of all the information we publish about our social and environmental performance, including what we publish online.

To meet that need, we have created a pdf of most of the website content about sustainability. It is worth emphasising four points about this pdf:

- It is a snapshot of what we published online when we launched our sixth social and environmental report 'Connected by football' in March 2006. It will not be updated

- It has been designed to be printed. It has not been designed to be read on screen, as the website serves that purpose. We have therefore deliberately not included clickable links
- It is not our social and environmental report, but an aggregation of all our most relevant web pages about sustainability. It can be seen as a supplement to the report, for those specialists who wish to have a hard copy of what we have published online
- It does not include every last word from our website about sustainability. For example, the reports of our stakeholder dialogue meetings, supplementary guidance materials for our suppliers and background papers to our working hours study are all available online but are not included in this pdf.

# Contact

We welcome your views about our efforts to become a more sustainable company. You can contact us at:

adidas-Salomon AG  
Social & Environmental Affairs  
World of Sports  
Adi-Dassler-Straße 1  
91074 Herzogenaurach  
Germany

Phone: +49 (0) 9132 / 84 - 0  
Fax: +49 (0) 9132 / 84 - 3242

For inquiries to our Social and Environmental Programme please send a mail to [sustainability@adidas.de](mailto:sustainability@adidas.de)

For media inquiries please send a mail to [corporate.press@adidas.de](mailto:corporate.press@adidas.de)

## Complaints

We want to know if anyone has complaints about conditions in our suppliers' factories.

If you have a complaint to make, you can contact us with the specific details of the case and we commit to taking your complaint seriously.

We appreciate that you may want to contact us anonymously. This does not change the seriousness we give your complaint although it does affect the process we follow:

1. We investigate all complaints we receive.
2. We will reply to you requesting further contact to establish the full details of your complaint. However, we understand if you wish to remain anonymous and do not wish to identify yourself.
3. We speak to all the other parties involved to establish the full facts of the matter and determine if our supplier has a case to answer.
4. If so, we inform the supplier and specify remedial action for the supplier to take in order to address the issue.
5. Unless your complaint was anonymous, we will contact you to inform you of the results of our investigation and the steps we are taking.

## Independent complaints process

We understand if you do not wish to complain to us about one of our suppliers. If this is the case, there is an independent process available to you through the Fair Labor Association, of which we are a member.