



Policy & Procedure

Version

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**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**

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Document Owner:

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Departments Affected:

Sourcing including external business parties such as licensees and distributors

Legal

Global Planning/Supply Chain Integration

Data Management Team

Version	Date	Modifications	Page
05	July 2015	Enforcement Guideline and Warning Letter SOP were merged into a single Guideline; Zero Tolerance & Threshold Issues Listing were removed, and added as an appendix; Unauthorised Production's procedures were updated;	4
		Suppliers designated "Warning Letter 1" cannot accept new production without it first being authorised by SEA.	14
06	August 2016	Update to Warning Letter scenarios	12

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1 Purpose

This Guideline sets out the approach of adidas' Social & Environmental Affairs ("SEA") Department enforcement of adidas' Workplace Standards ("Standards") when a supplier fails to comply with the Standards. Section 4 of the Guideline explains the principles by which we make decisions in relation to enforcement of the Standards. Section 5, 6 and 7 introduces the positions regarding Bribery, Unauthorised Production and Denial of Access. Section 8 provides the definitions of Zero Tolerance and Threshold issues, i.e. those cases of extremely serious non-compliance which would trigger enforcement actions that may impact a supplier's business. Section 9 of the Guideline sets out the range of enforcement actions, i.e. those 'remedies' available to adidas where a supplier is unwilling or unable to comply with the Standards, and the process for applying such remedies. Section 10 provides definitions of the resulting designation when enforcement action has been taken against a supplier. Section 11 sets out some additional definitions and notes regarding the updating of this document. Accompanying this Guideline is the Enforcement Guideline Procedure Flowchart which maps out the process of investigation, remediation and enforcement, and the parties involved in that process.

2 Scope

This SOP is applicable to all suppliers for all adidas Sourcing entities, licensees, agents or other similar third party business entities which source suppliers to make adidas product. (see the detailed definition in point 2 of Section 12 Notes and Terms)

3 Regulations

All steps and procedures set out in this Guideline must be followed strictly with no exceptions.

4 Principles

The SEA Team believes in firm but fair enforcement of adidas' Standards. Underlying a policy of firm but fair enforcement are the principles of:

- Proportionality in the application of the Standards and in ensuring compliance with them.
- Flexibility of approach by SEA toward all suppliers and across all regions.
- Transparency in relation to how the SEA Team operates and how the Standards should be implemented, i.e. providing clear information about what suppliers may expect from us and what we in turn expect of them.
- Targeting appropriately the recipients of any sanctions or other enforcement action.

4.1 Proportionality

The concept of proportionality requires that any action taken to protect workers, the environment or adidas' brands must be balanced against the risks and costs associated with that action.

Breaches of the Standards, in particular those relating to workplace health and safety, may cause or have the potential to cause serious risk of injury to workers. Other breaches of the Standards may interfere with worker rights, or may adversely impact the environment. The SEA Team's first priority is to prevent harm to workers or the environment from occurring and to ensure that such harm does not continue. Any action

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taken by the SEA Team will be proportionate to the risks posed by, and the seriousness of, the breach of the Standards.

4.2 Flexibility

The SEA Team aims to achieve consistency in the advice we provide to suppliers about the Standards and our responses to any non-compliance with the Standards. This requires us to adopt a similar approach in similar circumstances where the Standards have been breached in order to achieve a similar outcome – the outcome being protection of workers and the environment through compliance with the Standards.

However, the SEA Team recognises that consistency does not mean simple uniformity. We need to take into account many variables, such as the scale of the non-compliance, the attitude and actions of supplier management, and any history of previous incidents or breaches of the Standards. Any decision to take enforcement action against a supplier, for example to issue a stop work notice at a particular manufacturing site, or to recommend termination of a Manufacturing Agreement, is a matter of professional judgement, and the SEA Team will exercise its discretion in this area, in consultation with relevant internal and external sourcing units.

4.3 Transparency

Transparency is important in maintaining confidence in the SEA Team. Suppliers who want to comply with the Standards need to understand what is expected of them and what they may expect from the SEA Team in return. It also requires that the SEA Team provides clear reasons as to why any action to enforce the Standards is necessary, and that any actions are clearly communicated to suppliers and relevant internal and external sourcing units.

Transparency is essential to the conduct of the SEA Team. adidas provides ongoing training to the SEA Team and continuously reviews and develops the Team's procedures to ensure that:

1. when a supplier does not comply with the Standards and remediation is required, it is clearly explained why the steps outlined in an action plan are necessary and must be carried out – a distinction being made between implementation of best practice and meeting minimum compliance requirements;
2. an opportunity is provided to the SEA Team and the supplier to discuss and clarify the requirements before any remediation steps are taken – unless urgent action is required, for example, to protect workers from serious danger or to prevent extreme environmental damage; and where urgent action to enforce the Standards is required, a clear and complete written explanation of the reasons will be provided.

4.4 Targeting

Targeting means making sure that any enforcement action is directed appropriately at those primarily responsible for the breach of the Standards, and is focused on those areas which present the greatest risk or are the least well-controlled. Ultimately it is suppliers who are directly responsible for the risks at their manufacturing sites and who are best positioned to control those risks.

The SEA Team has systems in place that help us to prioritise and respond to risks as we become aware of them. They include:

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1. Methods for responding to complaints received directly from workers.
2. Conducting an assessment of the risks to worker health & safety and the environment posed by the manufacturing operations.
3. Reviewing the management systems which regulate human resources practices and industrial relations.
4. Acting on the independent reports of third party auditors and monitors.

In all cases, the attitude of management and the actions it takes (or fails to take) to promote compliance with the Standards are of critical importance. Repeated incidents or breaches of the Standards may be an indication of an unwillingness to comply with the Standards, to change unacceptable behaviours, or an inability to achieve sufficient control. This may require a total review of the relationship with the supplier, and in order to continue doing business, considerable investment by both adidas and the supplier.

5 Bribery

adidas' SEA field monitors and all authorised third party auditors are held to a straightforward and unconditional code of professional conduct which means they can not, directly or indirectly, seek or accept monetary "kickbacks" or any other benefit (e.g. gifts, free products, favours, promises of future work, etc) in connection with an audit or any related follow-up work.

adidas is opposed to all forms of bribery and corruption. The offer and/or acceptance of a bribe is a clear breach of adidas' Business Code of Conduct. Where the offer or acceptance of a bribe is reported, and proven, it will likely result in a termination of our business relationship with a supplier and, for our own staff, their dismissal. Similarly, if an authorized third party auditor is accused of soliciting or accepting a bribe, they and their employer can have their SEA accreditation revoked.

6 Unauthorised Production

If a supplier has not received the required SEA authorisation, and there are adidas branded products found in production, the factory concerned will be considered unauthorised and adidas' Intellectual Property (IP) team will be immediately notified.

When any individual within a Sourcing entity places orders with an unauthorised supplier and there is clear and irrefutable evidence that they have knowingly ignored, or bypassed, the company's approval procedures, then this may warrant disciplinary measures being taken against that individual.

If an approved factory was found engaging in unauthorized subcontracting, such production will be treated as illegal and SEA will inform the related Sourcing entity and Legal Dept. who will take action and issue a breach of contract letter. Licensees and agents are also required to issue breach of contract letters to their suppliers, when they have engaged in unauthorised subcontracting. The business unit within adidas that is managing the licensee or agent should liaise with Legal to ensure that the licensee or agent takes the necessary action to police the unauthorised subcontracting. A failure by a licensee or agent to take proper steps to control unauthorised subcontracting, may lead to a breach of their own agreements with adidas. In such cases Legal would enforce adidas' contractual rights.

In all cases of unauthorized production, the unauthorized factory will need to be disclosed in the FFC, and an Initial Assessment will need to be conducted regardless of whether or not the sourcing entity intends to continue working with the factory. Any issues discovered during the Initial Assessment will be required to be remediated.

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7 Denial of Access

This occurs when the SEA Team, third party monitors, project partners or consultants are refused entry to the manufacturing site, access to documents, or permission to interview workers. All of these activities are required for monitoring of the workplace. If management does not permit such activities to proceed, then the supplier is obstructing the work of the SEA Team. In rare cases, an emergency may genuinely preclude access, such as a strike or natural disaster, and in such instances, the supplier would not be penalised.

Denial of access is considered to be an extremely serious problem. As such, the obligation to provide free and unobstructed access to the SEA Team and third party monitors is included in the Manufacturing Agreements signed by suppliers. Therefore, denial of access will be treated as a legal issue and not necessarily a compliance issue. Where SEA Team members are denied access, this will be reported to SEA Management, who will discuss appropriate actions with adidas' Legal Department. In those cases where there is no signed Manufacturing Agreement, denial of access is still treated as an extremely serious issue, and appropriate action will be taken by adidas.

8 Defining Serious Non-Compliance

In the course of monitoring the manufacturing sites of suppliers, the SEA Team regularly uncovers breaches of the Standards. In most cases, such incidences of non-compliance are not as severe in nature as to require sanction. Normal practice for the SEA Team is to issue an action plan setting out negotiated timelines for supplier management to resolve any breaches of the Standards which are not considered severe or place the business partnership at risk.

On other occasions, the breaches are more severe and may threaten the lives or well-being of workers, suppress fundamental human rights, or result in irreparable damage to the environment. The types of breaches or workplace issues which are considered to be extremely serious in nature are categorized as ZT and TI issues requiring commitment from the supplier to take immediate action. Otherwise, enforcement action is considered to be taken against the supplier."

9 Enforcement Actions

This section sets out a variety of 'remedies' which the SEA Team may rely on, as illustrated in Enforcement Guideline Procedure Flowchart. In all cases, the impact of such action(s) on the workforce should be considered, and balanced against the need to introduce sanctions or take other enforcement action. The remedies are to be applied on a case by case basis, and are not mutually exclusive. For example, a supplier who has received several warnings may face other sanctions, such as a reduction in orders or, ultimately, termination of the manufacturing engagement.

In all cases, other than issuing of stop work notices (see directly below), no action will be taken against a supplier unless there has been extensive consultation with relevant sourcing unit. This is to ensure that all parties fully understand why SEA is recommending enforcement action, and to determine whether the staff from the sourcing unit can influence and/or support supplier management to make the necessary changes.

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9.1 Stop Work Notices

Where it is warranted in the circumstances, a temporary stop work notice may be issued, requiring suspension of operations at a manufacturing facility until certain requirements are met. A stop work notice may be issued where:

1. incidents or breaches of workplace health and safety are life threatening or likely to lead to injury of workers, or which have the potential for such consequences; or
2. manufacturing operations have significant negative consequences for the environment, or which have the potential for such consequences.

Effectively, this is an instruction to the supplier to shut down (or 'power-down') the relevant production line(s) or production areas until the danger to workers, or other significant harm, is removed. Such action will only be taken by the SEA Team in extremely dangerous or serious circumstances, with a proper regard for balancing the production schedule against the risk associated with not issuing the notice.

The SEA Team has designated staff, qualified and expert in the area of health and safety that have the authority to issue a stop work notice if they are on site. All other team members or third party monitors are required to contact and consult with their region's Senior Director or Vice-President to determine whether a stop work notice should be issued. In all cases, the SEA Team will first consult with supplier management and relevant sourcing unit, if any, on site before stopping production. For practical reasons, and due to the nature of the extreme conditions that would require a stop work notice to be issued, notice will be given to management verbally in the first instance. However, a written record of the case will then be made by the SEA Team member issuing the notice and provided to all relevant parties.

9.2 Third Party Investigations

A third party investigation may be recommended where there are persistent or repeated breaches of the Standards or SEA requirements at the same manufacturing site or group of factories, and it has become a matter of public interest. In such cases, where adidas has been unable to influence supplier management over an extended period, prior to termination being recommended, an independent, third party monitor may be invited to:

- investigate the causes of non-compliance;
- evaluate the impact of such non-compliance on the workforce; and
- recommend a plan of remediation.

In most cases, the third party monitor will choose to publish its findings and recommendations. adidas also will be required to make public disclosure in relation to the supplier's response and development of action plans and other steps to remedy poor compliance with the Standards.

9.3 Review of Orders

In cases of proven non-compliance, or where a stop work notice or warning to a supplier has already been issued, the SEA Team may recommend a review of orders. The relevant sourcing unit may then choose to reduce or relocate current orders, or temporarily suspend any new orders being placed with the supplier. Such action would be appropriate in the following cases:

- where the non-compliance relates to excessive working hours;
- where workers have complained of unreasonable production targets or excessive pressure being exerted by supervisors; or

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- where it is determined that the supplier has misrepresented its capacity to complete and deliver the product on time, regardless of whether adidas is the sole 'buyer'.

Where a supplier has been issued a second warning letter *new* orders are not authorised until a) all requirements set out in the warning letter have been met; and b) the SEA Team has verified that all items of non-compliance have been remediated satisfactorily, and has designated the manufacturing site in question "SEA Accepted". *Existing* orders may be completed.

9.4 Financial Contributions and Project Work

In addition to its auditing and monitoring work, the SEA Team is engaged in a number of projects aimed at making compliance more sustainable. The projects are diverse and cover a range of issues, from the development of a mechanism to establish fair wage levels, to occupational health education and training, to the implementation of human resources management systems, and best environmental practices in the manufacturing sites of suppliers who are more sophisticated in their management of environmental impacts. The SEA Team funds these projects internally from the budget allocated to consultancies and project work on an annual basis.

Where poor Standards performance in a specific area results in the need to establish a plan of remediation involving project work, third party consultants or monitors or local NGOs, the supplier will be expected to fund the remediation work and contribute to the costs of any external consultant. Examples of such work are provided below:

- Where there is no adequate grievance process or system of appeal against unreasonable or unfair disciplinary action – an independent body may be established with a local project partner to act as a centre for receiving worker complaints and to assist management in building the proper grievance systems within the Human Resources or personnel departments.
- Where there is no effective management-worker communication or the industrial relations in the manufacturing site are very poor – the development and delivery of appropriate training modules for management and union officers (or other worker representatives) by local arbitration institutions, the ILO, or other experts in the industrial relations area.
- Where the health of workers is particularly poor or there is an unusually high incidence of chronic disease (e.g. tuberculosis, anaemia, 'grey lung') – immediate health checks and medical assessment of all employees by local medical professionals, and a thorough review of the capacity of the clinic on site, its procedure and treatment provision.
- Where there is severe contamination or pollution of the local environment due to improper or uncontrolled manufacturing processes – an immediate environmental impact assessment and, where appropriate, clean-up operations.

9.5 Warning Letters

A warning letter is a written notification that, in the opinion of the SEA Team, a breach of the Standards has been committed (or is continuing) and that inadequate action has been taken by management to remedy the non-compliance. A record of warning letters issued by the SEA Team will be maintained and such letters will be referred to in any subsequent recommendation to terminate the manufacturing engagement. On any given issue, failure to remedy non-compliance after the issuing of two warning letters will usually result in immediate recommendation to terminate.

The SEA Team will consider the following factors in deciding whether or not to issue a warning letter:

- The effect of the non-compliance on the workforce
- The circumstances leading to the non-compliance
- The intent of the supplier (either at the individual manufacturing site level or at a group/corporate level)

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- The history of Standards performance of the supplier
- The attitude of the supplier in discussions with the SEA Team regarding Standards requirements
- Any remedial steps taken to address the non-compliance.

These factors are not exhaustive, and those which are relied on to issue the warning will vary from case to case. It is not simply a matter of weighing the number of factors for and against the supplier, in respect of its Standards performance. The SEA Team will decide how important each factor is, given the specific circumstances, and will make an overall assessment before reaching a final decision. In select cases, prior to a Warning Letter being issued, Sourcing and SEA will send a written memorandum to the supplier's management.

A warning letter will only be issued when the SEA Team has fully consulted with relevant sourcing unit, and believes that all other avenues of dialogue with the supplier have been explored and have not yielded any result. A formal letter will also be issued to the parent company whenever it is applicable.

9.5.1 Remediation Timeframes for Warning Letters

- 1) All action items in WL1 must be remediated within three months. This does not mean that all action items have a three month time frame, as some may require immediate attention while other issues require significantly less time than 3 months to resolve. SEA Field Monitors must set priorities based on the nature of the non-compliance and the time frames negotiated with supplier management. SEA Field Monitors should contact their manager if there is any doubt as to the time frame for remediation timelines.
- 2) As soon as all sustainable remediation and action points have been completed, and SEA has verified that they have been done satisfactorily, the FFC Designation changes to "SEA Accepted" and the supplier's KPI scores, if any, will be updated (i.e. WL1 will no longer affect the KPI).
- 3) If there are no sustainable improvements after three months, WL2 will be issued.
- 4) If after an additional three months there is still no sustainable improvement, the recommendation for termination will be made to Sourcing and its Legal Department and a Notification of Termination must be issued.
- 5) The SEA Field Monitors must maintain frequent dialogue with their line managers and other relevant staff (e.g., the CM or SEA Operational Contact, production or materials managers, and any adidas licensee or agent sourcing colleagues) during the Warning Letter process. adidas is seeking continuous improvement from its suppliers, therefore in order to avoid escalating a case to a WL2 or a Notification of Termination, it is critical that SEA Field Monitors engage colleagues in Sourcing and/or within licensees/agents, the SEA Lead Champion to seek their help and support in resolving non-compliance problems at the supplier.

9.5.2 Expiration Timeframes for Warning Letters

- 1) If the supplier remediates the issues set out in WL1 and there are no new or repetitive threshold issues within 18 months of WL1 being issued, WL1 will expire. WL1 will be kept in the SEA database, but will be regarded as inactive. Further, if there have been sustainable improvements in relation to all non-compliances set out in WL1, the supplier's KPI will not be affected.
- 2) If WL1 has already been issued, but either the existing or new threshold issues are identified within 18 months of WL1 having been issued, WL2 should be issued. However, if any violations are

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identified *after* 18 months of WL1 having been issued, a new WL1 will be issued and the remediation and expiration timelines are re-set to zero.

- 3) There is no expiration time for WL2. However, if there has been sustainable remediation of all action points in WL2, the WL will no longer affect the supplier's KPI. This means that a WL2 will always be active in the FFC, and any non-compliance, either new or repetitive in nature, will lead to a Notification of Termination.

9.5.3 Warning Letter Standard Operating Procedure

The flowcharts on the following pages detail the steps to be taken when a WL is issued based on whether the factories are **internal coverage** by SEA, sourced directly by adidas, or **external coverage** by approved external monitors, sourced indirectly through third party business entities such as licensees. These are usually indicated in Custom Data 2 in Account Information Page at FFC.

*Timeframes for WL: *Drafting the WL*: within 5 working days after the decision to issue a WL is taken;
Collecting signatures: within 5 working days after the WL and its attachments are ready

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**INTERNAL COVERAGE
– SEA Field Monitor takes the lead**

SEA Field Monitor discusses audit findings and proposed enforcement action with SEA Area Manager, Regional Manager or Regional Head depending on region.

SEA Field Monitor discusses with all relevant sourcing parties, if any, a) audit findings & remediation requirements; b) compliance / remediation history. When Warning Letter is recommended, SEA Lead Champion should be informed earlier than sourcing colleagues. In case there is any concern from Lead Champion, Lead Champion should discuss that with Field Monitor as well as the Field Regional Manager who will have the final decision.

If WL is agreed to be issued, SEA Field Monitor prepares the draft and attachment(s) using the WL template.

SEA Field Monitors and Program Operations in that region

- 1) collects the signature preferably from the primary sourcing entity and finalize the WL and attachment(s). Lead Champion will support in collecting signature)
- 2) sends WL to supplier, copying all relevant sourcing parties as well as a) AM, RM, or RH depending on region; and b) Lead and Regional Champion(s) as necessary.

SEA Field Monitor

- 1) updates the factory's FFC Designation to reflect enforcement action.
- 2) uploads a copy of the WL as an attachment under the relevant factory account in the FFC. (The updated FFC designation date will be the date it was mailed and not the day it was received back with the factory's signature.)

SEA Field Monitor

- 1) works with the factory to achieve all remedial targets and all Warning Letter requirements.
- 2) verifies remediation actions are occurring in accordance with the WL's timeline.
- 3) keeps the SEA Lead/Regional Champion(s) informed of progress and update the factory's CAP in the FFC to document the remediation activities.
- 4) updates the FFC designation to reflect the latest compliance performance of factory.

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**EXTERNAL COVERAGE
- SEA Lead Champion takes the lead**

SEA reviews and discusses audit findings based on the report from external monitoring companies



SEA discusses with all relevant sourcing parties: a) audit findings & remediation requirements; b) compliance / remediation history.



If a WL is agreed to be issued, SEA prepares the draft and attachments using the WL template and updates the FFC's designation on that date that the Warning Letter is ready to send to sourcing.

For adidas Business Units sourcing through supply chain intermediaries (single or multiple sourcing relationships)

For Third party licensee/distributor (single sourcing relationship)

SEA Lead Champion sends the draft letter to the primary sourcing entity to print the WL on their letterhead, and that date will be the effective date for the WL; put all the relevant people on the cc list

SEA Lead Champion sends the draft letter to the licensee to print the WL on their company's letterhead. *In cases where there are multiple licensees, the licensee with the primary/major relationship will be issuing the Warning Letter.*

Both VP of the Business Unit and Head of SEA sign off the WL. The BU sends it to the factory for their signature, and uploads the signed WL to the FFC within the factory's account page.

The Licensee
1) signs the WL and sends it to the factory and gets their signature;
2) uploads the signed WL to the FFC within the factory account's page.

BU
1) works with the factory to achieve all remedial targets and all Warning Letter requirements.
2) verifies remediation actions are occurring in accordance with the WL's timeline.
3) keeps the SEA Lead/Regional Champion(s) informed of progress and updates the factory's CAP in the FFC to document the remediation activities.

The Licensee
1) works with the factory to achieve all remedial targets and all Warning Letter requirements.
2) verifies remediation actions are occurring in accordance with the WL's timeline.
3) keeps the SEA Lead/Regional Champion(s) informed of progress and update the factory's CAP in the FFC to document the remediation activities.

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9.5.4 Warning Letter Scenarios based on different business entities

The table below illustrates the basic principle to have one major/primary sourcing party to sign off the Warning Letter. It also serves as a guidance for SEA team member and the business entity in preparing the Warning Letter.

Scenario	Which Business Entity is involved?	Who signs the Warning Letter (WL)?	Which term to be used in the WL?
Scenario A: adidas Letterhead is used with corresponding LO address	Only LO	Signed by Sourcing <u>and</u> SEA Sr. Mgmt.	Manufacturing Agreement should be used
	LO and other Business Entities (BE*)	Signed by Sourcing and SEA Sr. Mgmt. Other BEs are copied.	
Scenario B: Letterhead of the BU is used	Only BU (other than LO)	Signed by Head of BU <u>and</u> SEA Sr. Mgmt.	If there is no Manufacturing Agreement signed, please use the more general term Manufacturing Engagement
	Business Unit(s) and/or Licensee(s) sourcing together	BU Direct Sourcing: Letterhead of the BU is used. Signed by Head of BU <u>and</u> SEA BU Indirect Sourcing: Letterhead of the <u>major/primary</u> BU/Licensee is used (based on larger % of order volume). Other BEs should be copied	
Scenario C: Letterhead of the Licensee is used	Only Licensee	Signed by the Head of Licensee (no need for SEA to sign)	
	Multiple Licensees	Signed by the Head of the Licensee who has the major/primary relationship (based on larger % of order volume) (no need for SEA to sign, but SEA must be copied on outgoing letter) SEA informs the designation, instead of sending the letter to other licensees, to avoid any business conflict.	

9.6 Termination of Manufacturing Agreements & Engagements

The SEA Team recognises that recommending termination is a serious matter that should only be done after full consideration of all the consequences, especially any impact on the workforce. A decision to terminate

must be discussed and agreed with senior management level from the relevant sourcing unit.

Either in the case of identification of a Zero Tolerance matter, or as a matter of last resort, where all other options have been exhausted and a supplier is still unwilling or unable to comply with the Standards, we will recommend termination of the Manufacturing Agreement or Manufacturing Engagement.

(Note: In case a supplier which has a 'Compliance Override' designation fails to remedy the relevant non-compliances within the agreed time frame, SEA will issue a Notification of Termination letter).

Once a supplier has been terminated, it is permanently disqualified from production for adidas.

10 Fair Factories Clearinghouse Designation

When any enforcement action is taken against a supplier, the factory's Designation in the Fair Factories Clearinghouse (FFC) will be updated, adidas' compliance database. In doing so, the following tasks will be completed: a) update the Designation; b) change the Designation "status update" to the date the Warning Letter was issued; c) remove old Designation comments; d) update the Designation comments to include a brief explanation on why the Warning Letter was issued; and e) upload a copy of the signed Warning Letter as an attachment to the factory account page. The Designations are set out below:

- a. When SEA has issued the first Warning Letter, the SEA Field Monitor will update the FFC Designation to "On Probation – WL 1 Issued."
- b. When SEA has issued the second Warning Letter, the SEA Field Monitor will update the FFC Designation to "On Probation – WL 2 Issued."
- c. As soon as all sustainable remediation and action points have been completed, and SEA has verified that they have been done satisfactorily, the Designation changes from "On Probation – WL 1 Issued" or "On Probation – WL 2 Issued" to "SEA Accepted". **(Note:** see section 9.8 below which deals with expiration timeframes for Warning Letters.)
- d. The Designation "Pending Termination" is issued to an existing supplier who has been issued a Notification of Termination letter under the Enforcement Guideline and termination is being processed, existing production on the line can be completed. Once production is completed, the Designation changes to "SEA Terminated." This applies to an existing supplier who has been terminated on SEA's recommendation, because Zero Tolerance or Threshold Issues were discovered and the supplier would not remediate these issues in a sustainable manner. All production has been completed.

For some situations, Business Entities may choose to deactivate the factories based on business reasons before the issuing of the Warning Letter. In such cases, Warning Letter may not be issued but the intention to issue the Warning Letter shall be reported in the Designation Comment by SEA in the FFC to keep the compliance history of these factories.

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Designations and Order Authorisations

When enforcement action is taken against a supplier, the SEA Team will update the designation for the relevant manufacturing site in the Fair Factories Clearinghouse ("FFC") as follows:

Designation	Definition	Order Authorisation
SEA Accepted – Risk Of Enforcement	Applies to existing suppliers where Threshold Issues have been discovered in a previous Performance Audit, which requires the factory to remediate the Threshold Issues prior to their next audit or risk facing enforcement action (ex. Warning Letter 1). Follow-up audit must take place within 3-6 months of the factory being designated "SEA Accepted—Risk of Enforcement".	Orders are authorised.
On Probation – WL1 Issued	The supplier has been issued Warning Letter 1.	Orders are authorised only for the existing Sourcing Units. Any new Sourcing Units cannot place orders without first getting authorization from SEA.
On Probation – WL2 Issued	The supplier has been issued Warning Letter 2.	Orders are authorised only for the existing Sourcing Units during the 3 months of remedial period. The continuation of adidas production is subject to the completion of all required remedial actions outlined in this Warning Letter. Any new Sourcing Units cannot place orders without first getting authorization from SEA.
Pending Termination	The supplier has been issued with a notification of termination. SEA is awaiting confirmation from a) adidas Legal Department that the Manufacturing Agreement has been terminated*, and b) Sourcing unit that production is complete.	Orders are not authorised.
SEA Terminated	SEA has received confirmation that the Manufacturing Agreement/ Engagement with the supplier has been terminated and there is no production in process.	The supplier may not be re-instated as an active supplier by adidas or any other business entity doing business with or on behalf of adidas.

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		Effective date: July 2015
		Effective Until Replaced

***Note:** This only applies to those cases where there is a signed Manufacturing Agreement in place. Otherwise, confirmation from sourcing unit is sufficient.

11 Notes and Terms

1. This Guideline will be updated from time to time. The SEA Team will advise adidas colleagues, suppliers and other relevant business entities of any significant changes in the approach of the SEA Team to enforcement and termination procedures.
2. Supplier in this document refers to the factory (including subcontractors), i.e. manufacturing site for any type of production regardless of what kind of product for adidas. It also covers a broader term to reflect any sourcing and/or legal relationship including manufacturer, parent company or individual manufacturer, or other organisation from whom adidas sources product directly (including, and in particular, those suppliers with whom adidas has signed a Manufacturing Agreement) or indirectly through a third party business entity such as a licensee or agent.