

# MODERN SLAVERY PROGRESS REPORT

## 2021

To complement our 20+ year labour and human rights monitoring program, we launched the modern slavery outreach program in 2016 to intensify our efforts on potential risks in the upstream supply chain, looking beyond our Tier 1 suppliers, to drive greater transparency in the extended supply chain.

This report outlines the actions we have taken in 2021 to assess and address potential risks associated with modern slavery and forced labour in our supply chain.

<b>I. Policies</b> .....	2
<b>II. Due Diligence Processes</b> .....	2
<b>III. Addressing Identified Risks</b> .....	3
<b>IV. Measurement and Performance Standards</b> .....	3
<b>VI. Training and Capacity Building</b> .....	4

## I. Policies

Our approach to managing and eradicating forced or compulsory labour from our operations include the implementation of our *Policy on Modern Slavery* (first published in 2010), which ensures a tailored, risk based due-diligence process, risk assessment, regular monitoring activities and performance measurements as well as designing and delivering targeted training and capacity building. We have also included clear and well-defined policies on human trafficking and slavery in our *Policy on Responsible Recruitment and Responsible Sourcing and Purchasing Policy*.

Our commitment to ensuring fair labour practices and safe working conditions in our manufacturing facilities throughout our global supply chain is fundamental to our human rights approach. Our active efforts are guided by the adidas *Workplace Standards*, which is our supply chain code of conduct. To explain how we expect our suppliers to live up to our Workplace Standards – including our expectations on forced labour and child labour – we have produced a number of supporting guidelines that detail our expectations for fair, healthy, safe workplace conditions and environmentally sound factory operations.

All policies mentioned are available on our corporate website [here](#).

## II. Due Diligence Processes

Irrespective of country, or location, we expect our supplier partners to uphold our Workplace Standards, which explicitly prohibit all forms of forced labour, including prison labour. In accordance with the UN Guiding Principles on Business and Human Rights, we conduct due diligence to seek to prevent and mitigate potential severe human rights risks. Our primary aim is to ensure that suppliers are not linked to entities suspected of involvement in serious human rights harms or forced labour and that our manufactured goods are compliant with all applicable government sanctions and trade restrictions.

### Forced labour in high-risk locations

In recent years, there has been increased public attention given to potential forced labour risks linked to specific locations, such as cotton from Uzbekistan, Turkmenistan and China. adidas sources cotton only from other countries like Brazil, Pakistan and the United States. adidas has upheld a pledge to not source cotton from Uzbekistan or Turkmenistan. We continue to monitor developments in these locations and adjust our due diligence response accordingly.

In 2011, adidas, together with other international brands and retailers, signed a civil society and investor-led Cotton Campaign pledge, calling for the Uzbek government to end forced child labour in the cotton sector of Uzbekistan. In 2018 adidas had signed a similar pledge with the Cotton Campaign to address forced labour in Turkmen-sourced cotton. While improving the traceability of our material, we have reminded our suppliers that we expect them to ensure, to the best of their knowledge, that none of the cotton or cotton materials used in our products originate from Turkmenistan.

In 2021, we renewed our support of the Yarn Ethically and Sustainably Sourced (YESS) initiative, which utilizes a risk-based due diligence approach to identify and eliminate modern slavery from cotton supply chains. YESS has been designed and championed by the Responsible Sourcing Network (RSN), a US non-profit. We have continued to engage with RSN on the application of YESS in cotton supply countries, such as Pakistan and India.

We also developed a standardized template aligned with the International Labour Organization (ILO) indicators of forced labour to map and track the risk of forced labour in our supplier facilities. This template has been integrated into the Fair Factories Clearinghouse (FFC), a shared industry audit data platform, to support ongoing monitoring of forced labour risks in our supply chain.

In March 2021 we issued a memorandum to all our manufacturer business partners, licensees, agents and materials suppliers as a reminder - through the sourcing of raw materials, parts, components, or finished goods - of the

importance of conducting due diligence to ensure our supply chain is free from all forms of forced labour, including prison labour, and that the rights of the child are upheld and protected.

Through the above measures, adidas endeavours to ensure that potential adverse human rights impacts are identified, and measures are taken to prevent or mitigate such risks, including full compliance with any national or international legal obligations, trade restrictions or sanctions.

### **Effective grievance mechanisms**

We deploy an operational grievance mechanism at all our strategic supplier sites. In 2021, more than 600,000 workers employed in 123 manufacturing facilities across 18 countries had access to this digital system, reflecting a 99% coverage of strategic manufacturing partners.

There continued to be a positive trend in improvement with regard to how our supplier partners and workers utilized the operational grievance mechanism in 2021 as compared to the same period in 2020:

- In 2021, the grievance mechanism received nearly 52,000 worker complaints (2020: around 46,000). In terms of volume, the top complaints were related to concerns over topics such as: general facilities, benefits, health and safety issues associated with COVID-19, and communication.
- The total rate of timely resolved cases increased from 98% to 99%, reflecting greater confidence in our suppliers' ability to address and resolve issues raised by workers. Workers expressed a 71% satisfaction rate with regards to how their cases were resolved by management. Suppliers continue to utilize the digital platform to better communicate with workers and inform them of their rights, as well as key operational updates. In 2020, there were 7,714 broadcast messages via app sent by factory management to workers; in 2021, this increased to 8,567.

In addition to our digital grievance system, we also run worker hotlines and an overarching [human rights third party complaint mechanism](#), which is accessible to anyone, anywhere.

### **III. Addressing Identified Risks**

#### **Responsible recruitment for Tier 2 suppliers**

Modern slavery and forced labour risks are often highest in manufacturing settings where there are significant populations of foreign migrant workers. Since 2018, we have focused our efforts on addressing such modern slavery risks in our supply chain among Tier 2 suppliers through a partnership with the International Organization for Migration (IOM) and its Corporate Responsibility in Eliminating Slavery and Trafficking (CREST) initiative to promote fair recruitment practices.

Together, adidas and IOM CREST conducted a foreign migrant worker risk assessment, which identified Indonesia, the Philippines, Thailand, and Vietnam as the key sending countries for foreign migrant workers employed among our Tier 2 suppliers in Taiwan. A key focus of the programme has been to strengthen our engagement with our Tier 2 suppliers employing foreign migrant workers and build capacity among the recruitment agencies working with these suppliers.

In 2021, we provided targeted trainings for private recruitment agencies from the four identified key sending countries to raise their awareness on international standards on responsible recruitment and available certifications. The training was conducted in partnership with IOM, as part of our drive to increase overall awareness of ethical recruitment, improve recruitment fee transparency, and build capability and understanding of the 'International Recruitment Integrity System' ('IRIS'), the global standard for ethical recruitment.

### **IV. Measurement and Performance Standards**

We diligently track our work to address modern slavery risks and provide frequent updates to both internal and external stakeholders to increase transparency and disclosure. Through our annual UK and Australia Modern Slavery Statements, annual modern slavery progress reports, and other public disclosures, we regularly share and communicate the actions we have taken to address forced labour and modern slavery in our supply chain.

We continue to receive external recognition for our approach to managing human rights and modern slavery risks. We maintained our leadership position in the 2021 KnowTheChain forced labour benchmark as the highest-scoring European company in the benchmark and second highest-scoring company overall among 37 companies benchmarked in the apparel and footwear sector.

## Stakeholder engagement

Engaging openly with stakeholders and establishing leadership approaches for transparency and disclosure is a fundamental part of our approach to sustainability. Throughout the year, we continued to engage with external stakeholders from the investor community, international organisations and civil society. Examples of stakeholder engagement conducted in 2021 include:

- Providing regular briefings for the ESG and investor community who have shown a strong interest in due diligence processes and transparency efforts, to satisfy forced labour provisions within current and emerging regulations in North America and Europe.
- Engaging with UNICEF and providing case study materials outlining how we have worked with upstream suppliers to combat modern slavery and the worst forms of child labour, which was included in [A Compendium of Company and Industry Examples](#) for the garment and footwear sector.
- Continuing our engagement with Anti-Slavery International, ASOS, IndustriALL, and the UK Home Office in relation to the development of an [independent grievance mechanism and training centre](#) for garment manufacturers in Mauritius.
- Renewing our sponsorship of the [Yarn Ethically and Sustainably Sourced](#) (YESS) initiative, a due diligence approach in the cotton textile industry to address forced labour

## VI. Training and Capacity Building

We continue to raise awareness of modern slavery, both within our own operations and our supply chain. Building on the 2018 targeted online training on preventing modern slavery in our supply chain for close to 2,000 Sourcing and Procurement staff in our own operations, in 2021 we focused our efforts on our supply chain.

2021 saw an expansion of our mobile-phone-based 'Digital Training' project, which was successfully rolled out in 43 manufacturing facilities across Cambodia, China, Indonesia, and Vietnam. The digital tool assesses workers' awareness of their labour rights and options for access to remedies, with training topics including harassment and abuse, fire safety and use of grievance channels. Of the more than 62,000 workers who took part in 2021, workers averaged a score of 92 out of 100 in the post-test questions, demonstrating robust understanding and awareness.

## VII. Looking Forward

We plan to continue to embed modern slavery awareness within our business and among our suppliers to ensure effective remediation and sustainable capacity building. In 2022, we will refresh the modern slavery online training for our Sourcing and Procurement staff to ensure internal knowledge and capacity remains updated and aligned with evolving risks and issues related to modern slavery.

We will also review and update our Modern Slavery Risk Assessment in 2022 to ensure we accurately assess the potential risks of modern slavery in our operations and extended supply chain to set priorities for further action and engagement.

We will also continue to closely monitor regulatory developments and emerging legislation related to modern slavery, forced labour and human rights due diligence to our ongoing efforts to manage modern slavery and forced labour risks comply with the law.

---