

STRIVING TO IMPROVE PERFORMANCE

CORPORATE RESPONSIBILITY REPORT 2007

An athlete who wants to improve their performance must give 110%. To become a truly sustainable business we know the adidas Group must do the same.

Going into more detail than our printed review, this report looks at what we have achieved in 2007 and the efforts we have made to improve our social and environmental performance.

So it includes performance data, a review of our progress against the targets we set ourselves for the year and more information on our approach to managing social and environmental issues.

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BUSINESS AND REPORT OVERVIEW

Corporate responsibility report • 1



Here we explain what this report covers and provide some context for the report with a profile of the adidas Group. You can also read about the challenges we face to be a sustainable business and the adidas Group CEO's view on our sustainability performance.

Our performance data presents key numbers from the year, and our assessment of how we have done against our targets is covered in the Progress and targets section. We also set out our targets for 2008.

ABOUT THIS REPORT

This report describes the social and environmental performance of the adidas Group during 2007. It is the first report containing Group-wide performance data since Reebok became part of the adidas Group on 31 January 2006.

The report sets out our goals, strategy and actions in improving working conditions in our suppliers' factories, in reducing our environmental impact and managing our wider social responsibilities as a multinational company. It refers back to the objectives and targets given in last year's Question and Answer brochure, and assesses our progress in meeting them. It highlights social and environmental issues identified as significant by our stakeholders and describes targets for the next reporting period.

The report has been released at the same time as the annual financial report to give stakeholders a complete picture of our business.

We have tried to avoid duplicating text, so in some instances the reader is directed to web pages and adidas Group reports for more information.

HOW WE HAVE CHOSEN WHAT TO REPORT

Determining materiality

Actively engaging with various stakeholder groups, whether they are shareholders, consumers, customers, suppliers, workers or our employees, helps us to understand their concerns and how best to respond to their needs.

We have several ways we engage with stakeholders. These range from one-to-one meetings with SRI analysts to large meetings with workers in our supply chain. All of these engagements inform where we focus our energies in our work and what we choose to address in our report. See the Ways we engage pages.

Once again, we have referred to the Global Reporting Initiative (GRI) guidelines for a steer on what to include in our report. For more on our use of the GRI, see the GRI Index.

We also refer to our mission, our values and our business strategy to guide us in identifying material issues. The adidas Group strives to be a global leader in the sporting goods industry. Leadership is not only about results, it is about how success is achieved. We know that we can have an influence on our large supply chain and the workplace conditions of hundreds of thousands of workers. These are all considerations in our assessment of what is material to report.

Prioritising topics in the report

In this year's report we continue to provide in-depth information about our social and environmental programme. Our focus continues to be our global supply chain where we seek to ensure fair, healthy and environmentally sound conditions for the workers who make our products.

This year we have expanded our coverage of our global environmental programmes and initiatives, which we implement both within the adidas Group and the supply chain. This is in response to an increased stakeholder interest in these issues in 2007, particularly climate change.

We also provide a comprehensive description of how we partner and engage with other organisations to drive social and environmental improvements in countries where we and our business partners operate.

The report includes information covering all brands and divisions of the adidas Group, as well as key facts about our supply chain. In 2007, we have begun to cover more of our indirect supply chain. We have made it clear in the report where information relates to the Group's entities or our suppliers.

Who we expect to use the report

All our stakeholders may have an interest in our reporting, but some more than others. We have this year produced a review which sets our performance in a broader context. This review may be of particular interest to our employees and customers.

This online report we expect to be of most interest to people in government, SRI analysts, special interest groups and other opinion formers.

VERIFICATION

We recognise that some stakeholders want companies to ensure that the content and data disclosed in sustainability reports is independently verified. While we strive to continuously improve our reporting systems for supplier monitoring data, we feel that much of this data, in particular, data on labour conditions, is not always verifiable in a standardised way. Therefore, at this stage report verification would not add value. We do, however, believe that independent verification of workplace conditions and of the processes and monitoring approaches we adopt in our compliance programme is important. For this reason the report 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 OHSAS standards.

CEO STATEMENT

Perhaps in years to come 2007 will be seen as the year the world really woke up to the challenge of climate change. Former US vice president Al Gore and the UN Intergovernmental Panel on Climate Change won the Nobel Peace Prize. And governments from around the world met in Bali in December to agree a way forward.

Certainly climate change is one of a number of key issues for our global society to face, along with disease, poverty and resource consumption. All of these issues stand in the way of a truly sustainable world.

While these challenges can seem overwhelming, it is important to remember that our efforts and energies need to be focused on what we can do, in our street, our town or our company, to make a difference.

As the adidas Group strives to improve its social and environmental performance, we recognise that we can, and must, take action and encourage others in our supply chain to take action if we are to make a difference and become a sustainable business.

MOVING THE BOUNDARIES

So what have we achieved in 2007? Based on our work in 2006 when Reebok joined the adidas Group, we rolled out our new programme standards, guidelines and procedures to all the people across the adidas Group who manage relationships with suppliers. We distributed written briefings and audio-visual materials and also ran training sessions, both face-to-face and over the internet.

All our brands' compliance data is now held on the Fair Factories Clearinghouse database. So we now have one Group-wide compliance data management system for our global supply chain. This will significantly improve information-sharing between colleagues about supplier performance.

And we have further strengthened transparency by publicly disclosing the merged adidas Group global supplier list on our corporate website.

PROMOTING SELF-GOVERNANCE

We took steps along the road to our long-term goal of self-governance for our supply chain by running innovative programmes for our suppliers. By raising awareness and helping our suppliers with the tools they need to drive improvement, we are convinced we will see more suppliers take responsibility for their own social and environmental performance.

We ran tailored training programmes on energy efficiency in China and Vietnam that emphasised the business case for sound environmental management systems. More than 100 suppliers attended and we will be extending these training programmes in 2008.

The safety officer registration programme in China and Vietnam was also successfully implemented. This programme is designed to give our suppliers access to the technical expertise they need to improve safety management in their factories.

NEW PRODUCT DEVELOPMENT

One area where we can make a difference is in how we integrate social and environmental concerns into our core business practices. In 2007, building on an extensive research effort over the past three years, we made significant progress in embedding environmental considerations into product design and development.

In 2007 we developed a new range of footwear and apparel – adidas Grün – launched in spring 2008. Made with natural and recycled materials, we have minimised the environmental impact of its manufacture at every stage of the process. Our team – drawn from across the business – rose admirably to the design and production challenges we faced in developing this exciting new range.

INNOVATIVE ENGAGEMENT AND OUTREACH

We believe that business cannot succeed in a society that fails. Therefore we look for partnerships with suppliers that operate in a socially stable environment. We know that our practices contribute to the success of the societies in which we operate, through the employment we indirectly create, the social programmes we support and our efforts to protect worker rights.

In our outreach to governments in 2007, we took innovative and unusual steps to address shortcomings or weaknesses in the enforcement of national labour laws to protect worker rights.

For example we published an open letter to the El Salvador government in two national newspapers. In the letter we asked the government to reopen discussions about the Hermosa factory case and to address its failure to enforce its own labour code, and indeed the national constitution. And I am pleased to report that the letter had the desired effect: discussions were reopened in December 2007 and we are hopeful that the ex-workers at Hermosa will receive the severance pay and health care coverage they are due.

REPORTING

Stakeholders require businesses to be accountable for their actions and we are committed to acting responsibly and reporting transparently. Our 2007 online report provides a comprehensive description of the adidas Group social and environmental strategy, programme and performance. We have again referred to the Global Reporting Initiative guidelines to inform our reporting.

In our efforts to engage more deeply with our audiences, we have this year published a review, in addition to the online report. This review reflects on the efforts the adidas Group made in 2007 to be a responsible business. It discusses the social and political context for our work, covering four main topics: big business and sustainability, preparing for major sporting events, 'Made in China' and climate change.

RECOGNITION

Our efforts have been recognised by market indexes. For the eighth consecutive year, the adidas Group is listed as a leading company in the textiles and apparel sector on the Dow Jones Sustainability Indexes and we are included in the FTSE4GOOD Europe Index and on the Vigeo Group's Ethibel Excellence, Ethibel Pioneer and ASPI Indexes.

CHALLENGES TO BE TACKLED

While we can be proud of what we have achieved, we are not complacent and know we need to continue giving 110% to rise to the challenges ahead of us.

As our business develops, so our social and environmental programme needs to adapt. Now Reebok is part of the adidas Group, we place more orders with licensees and agents, so we must develop new approaches for monitoring how well their suppliers comply with our standards.

The adidas Group is a collection of highly visible, iconic brands that connect with people of all ages, but in particular with today's youth. This, combined with our position as an industry leader, means we have a responsibility to set an example in everything we do. By continuing to improve our business practices, we can inspire and influence our suppliers to address their own performance. This is particularly true of environmental issues. So in the coming year we will be looking more closely at resource use, waste and the climate change impacts from our own business.

LOOKING AHEAD

We have published our targets for the year ahead and also provide an overview of what we have achieved and where we have fallen short in our Progress and targets section. As always, there is more to be done. Becoming a sustainable business is a marathon, not a sprint. But I am always impressed by the dedication and hard work of our employees and am confident that, with continued focus, passion and team spirit, we can meet the challenges in the year ahead.

Herbert Hainer

CEO and Chairman of the Executive Board of adidas AG

OUR BUSINESS PROFILE

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

adidas	Footwear, apparel and accessories
Reebok	Footwear, apparel and accessories
TaylorMade-adidas Golf	Golf equipment: metalwoods, irons, putters, golf balls, footwear, apparel and accessories

Activities of the company and its more than 150 subsidiaries are directed from the Group's Headquarters in Herzogenaurach, Germany. Also located in Herzogenaurach are the strategic business units for Running, Football and Tennis as well as the Research and Development Centre. Additional key corporate units are based in Portland, Oregon in the USA, the domicile of adidas America Inc. and home to the strategic business units Basketball, Adventure and Alternative Sports. Reebok Headquarters is located in Canton, Massachusetts. TaylorMade-adidas Golf is based in Carlsbad, California. The company also operates design studios and development departments at other locations around the world, corresponding to the related business activity.

adidas Sourcing Ltd., a fully-owned subsidiary headquartered in Hong Kong, is responsible for worldwide sourcing. More information about the Group's major locations can be found on our corporate website at www.adidas-Group.com/en/overview/locations/world.asp

On December 31, 2007, the adidas Group employed 31,344 people.

Key data about the Group's financial performance can be found on our corporate website at www.adidas-Group.com/investors

OUR BUSINESS CHALLENGES

Sport is a universal language and the adidas Group is a global business: we have offices in more than 55 countries and 50 nationalities represented among our staff at the Group's Headquarters. We source products from more than 60 countries. In short, our brands are visible all over the world. Current developments that further increase our visibility are:

- Being organised around our best-known brands: adidas, Reebok and TaylorMade. We deliberately seek to raise the profile and reach of these brands.
- Global sports events such as the Beijing 2008 Olympic Games. Millions of people will watch these games. And adidas will be there as Official Sportswear Partner and kit provider to many National Olympic Committees.
- Working with an external supply chain. As the adidas Group has outsourced most of its production and sources from a multi-tiered supply chain, the way we manage our suppliers is under scrutiny. The social and environmental impacts of our sourcing strategy have drawn increased attention from various stakeholders.

Like any global business, the adidas Group must manage wide-ranging commercial and competitive pressure to deliver increased financial returns and growth. At the same time we are accountable for our employees and have a responsibility towards the workers in our suppliers' factories and also for the environment.

Within the global business landscape of the sporting goods industry, the adidas Group is continually confronted with a variety of challenges that arise from our commitment to striking the balance between shareholder interests and the needs and concerns of employees and workers and the environment, or in short in our aim to become a sustainable company.

In the following section we outline the key challenges we are facing and provide a brief overview about how we respond to them.

CHALLENGE: BEING COMPETITIVE

Being competitive requires we respond to consumer demands for a broad range of products. This, in turn, means we need a wide variety of suppliers.

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, such as lifestyle and fashion.

Each of these markets has its own business specialities and requirements in terms of product style, seasonality, destination, availability and flexibility. This poses challenges to our existing sourcing model. For example, the supplier

set-up for high-volume sports performance apparel structurally differs from suppliers who produce goods for casual or fashion market in lower quantities. Since there is no 'one-size-fits-all' sourcing concept that meets the respective market needs of business entities, product sourcing within the adidas Group has become more decentralised. The number of sourcing entities and increased complexity in business relationships poses challenges for overseeing consistent execution of social and environmental standards across the entire supply chain.

Cost-effective product manufacturing and distribution are further imperatives. To remain competitive, we have largely outsourced manufacturing to countries where production costs are low. Interestingly, the emerging countries from which we source are themselves developing into major consumer markets for our products, blurring the line between export producers and local or domestic manufacturers.

RESPONSE: ONE GROUP – ONE SET OF STANDARDS

We believe that the values and principles we share with our business partners positively impact on business and the life of people making our products. We communicate these values through our 'Workplace Standards'. The Standards 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.

The Workplace Standards are fundamental to 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 Standards. 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.

In 2007 we rolled out our policies to all adidas Group entities to ensure adherence to the principle 'One Group – One set of standards'. These policies contain uniform and mandatory procedures related to disclosure of suppliers, approval of new suppliers, enforcement actions and termination practices.

CHALLENGE: BUILDING CREDIBILITY AND TRUST

Some stakeholders have concerns about the credibility and effectiveness of an internal supply chain assessment programme. Their major point of criticism is the independence and impartiality of such programmes. They argue that we can make only limited progress in improving working conditions and even contribute to adverse impacts on them, such as peaks in working hours, through our own sourcing patterns. The fact that products are sourced from countries where freedom of association is legally restricted raises further concerns for some stakeholders.

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.

RESPONSE: APPROACH TO TRANSPARENCY

Transparency, disclosure, and collaboration

We value transparency and stakeholder feedback. We report regularly 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 practise full disclosure to researchers, trade unions and other concerned NGOs, based on their specific requests. A practice we have followed for more than a decade.

In 2007, we continued in our practices to disclose factory names and addresses to several local union affiliates based on individual requests. A full list of our suppliers has been posted on our website and is updated on a bi-annual basis. The addresses of US collegiate-licensed suppliers were also disclosed to the universities in the United States that hold licensee agreements with us.

In 2007, we saw a number of factory closures among our footwear suppliers in Indonesia. As soon as we became aware of the factories' financial difficulties, we engaged with factory management, local unions and local industry associations. Local unions and the NGO community were regularly informed about the actions we took to cushion the social impacts of the closures on workers.

One innovative feature in our efforts to be a transparent company is the Group's participation in the Fair Factories Clearinghouse (FFC). The FFC is an industry-wide database that centrally gathers information from the whole supply chain, and records our monitoring results. By using this data system, there is now a higher level of transparency: for instance, compliance information in the FFC database can be shared with other companies and third parties.

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.

Since the year 2000, the adidas Group annually publishes a social and environmental report. Our reports use the GRI reporting guidelines to inform us about what qualitative and quantitative information to disclose to meet stakeholders' interests.

Furthermore the corporate website of the adidas Group is regularly updated during the reporting period.

Working with others

We are involved in many multi-stakeholder initiatives because we believe that working collaboratively can create lasting change in factory and environmental conditions.

In Asia

In 2007, for example, we hosted a one-day workshop on Corporate Social Responsibility (CSR) and stakeholder dialogue in Hong Kong. The purpose of the meeting was to introduce the concept of CSR and its application within the adidas Group and to obtain feedback on a variety of topics to help inform the development of the Group's social and environmental strategies. The chosen topics were the environment, China's new Contract Labour Law and community relations. Sixty managers and directors from a cross-section of suppliers attended, including our manufacturing partners, material suppliers and international transportation and logistic operators. You can download a full report on our stakeholder dialogue from our corporate website at www.adidas-Group.com/sustainability

In the Americas

In 2007, we extended our engagements with university licensing and labour committees, administrators and student groups at the universities of Wisconsin, Michigan, Notre Dame and UCLA. While many of these engagements were to brief the university communities on our activities, others addressed concerns of student activism. Several licensor universities requested, and were given, access to the auditing records of factories making their products.

Building on our outreach to governments, in late October 2007 we took the unusual step of publishing an open letter to the El Salvador government in two national newspapers. In the letter we asked the government to reopen discussions about the Hermosa factory case and to address its failure to enforce its own labour code and indeed the national constitution. For more, see Engaging our stakeholders.

In Europe

In 2007, we continued our engagement in the Multi-Stakeholder Initiative Pilot Project (Jo-In Project) in Turkey about workplace standards.

At a Group level

In 2007, the adidas Group played a key role in assisting the World Federation of Sporting Goods Industry in reinforcing the industry's position on zero-tolerance for child labour in the football stitching supply chain and supported the Federation in shaping its global CSR programme for 2008.

The adidas Group continued to support collaborative efforts to improve environmental standards by participating in the inter-brand working group AFIRM on restricted substances as well as in the Better Cotton Initiative (BCI) aimed at improving the environmental conditions of cotton production.

For more about transparency, see Engaging our stakeholders.

CHALLENGE: MANAGING AN EXTERNAL SUPPLY CHAIN

Our supply chain is large, multi-layered and complex. It comprises many different suppliers that can be broadly categorised as one of main factories, subcontractors and material suppliers.

While we strive to consolidate the supply chain for our core business and international export market production, in other areas we are also expanding our supplier base. 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.

Certain adidas Group business entities work with agents who act as intermediaries who manage sourcing operations with individual suppliers.

A simplified illustration about our supply chain and its tiers is shown in the Managing our supply chain section.

Outsourced production is not without its risks. We have less control over how our suppliers operate and the conditions at their factories than we do at company-owned sites.

Not enough capable managers

We have our Workplace Standards, which guide our suppliers on achieving acceptable working conditions. Our efforts are directed at addressing the root causes of problems and helping factories 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 qualified middle managers with health and safety and human resource management skills, and where there are capable people, turnover rates are high.

Peak demand stretches suppliers

Major sporting events create challenges in managing product demands and peak production loads in a limited base of suppliers. Also, marketing and promotion campaigns for major sports events often include specialty and give-away items, which are ordered through agents who operate outside of our main supply chain.

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 engagement with local worker organisations and NGOs to better understand working conditions in places where our products are made.

Within our core supply chain we act as both inspectors and advisors, assessing management commitment to our Workplace Standards but also training our suppliers on the key issues. We use a Key Performance Indicator to measure the effectiveness of actions taken by suppliers and also provide training on establishing effective human resources and environmental management systems to help suppliers understand what is needed from them to achieve self-governance. To ensure that management systems are overseen by knowledgeable managers and they are retained in factories, we have been introducing innovative registration procedures for factory health and safety managers.

We are extending the contractual obligations of those agents and licensees who operate outside of our main supply chain to include compliance with our Workplace Standards. We require agents and licensees to develop strategic compliance plans that show how they manage their suppliers' compliance. These plans are subject to review by the adidas Group.

For more, see Managing our supply chain.

CHALLENGE: MANAGING CHANGE

As a company we do not act in isolation. Our business strategy and social and environmental programmes need to respond to multiple economic and societal developments in key sourcing countries.

External factors such as rising energy prices or the emerging labour shortages in key sourcing regions require both our sourcing strategies and suppliers to be very adaptable in order to manage these risks and achieve growth.

While economies in major sourcing countries are further maturing, we still see shortcomings in their social infrastructures. Recent cases of factory closures in Indonesia and the subsequent plight of the workers once more showed insufficient social safeguard measures taken by the government.

A number of strikes occurred in factories in Vietnam in 2007. These events indicate that workers are increasingly comfortable with collectively expressing their demands, particularly with respect to wage concerns. We noticed factory management needed guidance on conflict management and good faith negotiations practices in order to reach acceptable solutions for both parties and worked closely with the ILO in the development of such guidance.

China's new Contract Labour Law and other legislation related to the prevention of water pollution and clean production are signs that the Chinese government wants to tackle the challenges their country faces. We encourage our business partners to establish effective management systems to be prepared for integrating these new laws into

their daily operations. We have also organised specific training sessions for our suppliers and invited local experts to answer their questions on the application of these new laws.

We will continue to diversify our sourcing portfolio across all product types. Countries such as China, Indonesia, Vietnam and India will remain our primary sourcing regions. In the medium term, our plan is to reduce the proportion of the sourcing volume in China by increasing capacities in other countries such as Indonesia, Vietnam and India.

RESPONSE: INTEGRATING STANDARDS INTO DAY-TO-DAY OPERATIONS

The establishment of the 'Social and Environmental Affairs' (SEA) corporate function in 1997 was a landmark in the integration of sustainability principles into the global adidas Group organisation. SEA consists of 62 experts that are tasked with ensuring supply chain compliance with the Workplace Standards and with managing the wider corporate responsibility activities of the Group. The SEA Team members are located near our suppliers and collaborate closely with the Global Operations group, which is responsible for developing and sourcing products from suppliers.

For more see the Social and Environmental Affairs Team section.

To drive change the results of supply chain compliance performance must inform the Group's Operations team and other supply chain decision-makers. The Workplace Standards are an integral part of the manufacturing agreements the Group holds with its business partners as well as of the Global Operations factory rating system, and they ensure that customer demands are met – and competitive advantages achieved – in a responsible environment.

To track factory compliance performance within our core supply chain and to support supplier selection and retention by our Sourcing organisation, we use a Key Performance Indicator (KPI).

After a comprehensive period of field-testing and stakeholder consultations, we now fully apply this innovative approach to measuring how well our suppliers are complying with our Standards. This KPI assesses the effectiveness of suppliers' activities at delivering safe, fair and environmentally sound workplace conditions.

For more on this, see Managing our supply chain.

CHALLENGE: BEING ENVIRONMENTALLY RESPONSIBLE

Climate change has been a topic in the news and on the agendas of governments all around the world in 2007. There were numerous conferences and events that addressed the need for significant, urgent action.

What does this mean for a business such as the adidas Group? Environmental sustainability poses a number of challenges for our company and its functions, whether for product management, innovation, development teams, facility management or our manufacturing partners.

The goal is to achieve a balance between various demands:

- Our products must be competitive in function and price, but also safe (during use and after disposal) as well as environmentally friendly.
- Manufacturing products must be done with the least environmental impact without compromising function and quality.
- Our operations have to become resource-efficient and lean but also need to fully support our business goals.

RESPONSE: REDUCING OUR ENVIRONMENTAL FOOTPRINT

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 to continuously reduce our direct environmental footprint
- 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
- Integrate environmental aspects in the product design and development process.

We apply new policies, procedures and practices to ensure that all corporate entities of the adidas Group are operating to the highest standard. Our core suppliers are required to establish environmental management systems, which encourage them to plan, manage and review their own environmental performance. We capture and report on resource consumption at our own factories and major sites in a harmonised way, and have introduced similar environmental metrics for our suppliers' footwear factories. These initiatives allow us to identify and share best practice across the whole Group – both at our own sites and in our supply chain.

We have further strengthened our capacity building programmes for suppliers and conducted energy efficiency workshops in major sourcing countries.

In 2007, innovative environmentally-optimised product ranges were developed by the adidas Sport Style division and launched in spring 2008.

For more see Protecting the environment.

CHALLENGE: MANAGING 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 THE ADIDAS GROUP THE PLACE TO BE

The success of the Group is a direct result of the engagement of the 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.

For more see the Our employees section.

CHALLENGE: SUPPORTING LOCAL COMMUNITIES

As a multinational enterprise, the adidas Group is represented in many countries around the world and its business operations impact the lives of the people in those communities. While there are many possible ways to get involved in aid or community programmes by providing financial or in-kind resources, the challenge is to know the local needs of the communities and to identify programmes that sustainably enhance the social and environmental infrastructure and also impact positively on the business environment. Knowing local needs is just one side of the coin; the other is making programmes an integral part of the company's core business strategy and focusing the engagement where the business has its biggest impact. This approach is what distinguishes genuine community involvement from philanthropic measures.

RESPONSE: DECENTRALISED DECISION-MAKING WITHIN A GLOBAL FRAMEWORK

The adidas Group has adopted a largely decentralised and brand-oriented model for community involvement practices, recognising that people in our regional subsidiaries and Group entities best understand the needs and cultural sensitivities of their local communities. At Group level we continue to support our suppliers' communities, as well as make contributions to organisations that promote sustainable development practices within the industry.

Initiatives that derive from the brands' individual identities and value sets may vary in form, but they are all aimed at supporting children and young adults, with sports as a common theme. Our key brand community programmes are described below:

Adi Dassler Fund

The Fund supports organisations that connect children with coaches who teach life values in addition to sport. These organisations and their programmes use sport to teach matters such as self-confidence, respect and teamwork that can break down barriers and allow people to live healthier, happier lives. The Fund receives assistance from the adidas brand and its employees around the world.

Reebok Human Rights Foundation

In 2007, the Reebok Human Rights Foundation and Community Relations programme continued financially supporting organisations in and around Reebok World Headquarters, namely the Greater Boston area. We award grants and expand existing strategic alliances and collaborations with organisations that promote social and economic equality through programmes serving inner-city youth and underserved minority groups.

TaylorMade-adidas Golf (TMaG) programme

TMaG is committed to supporting charitable organisations that champion youth, golf, and those less fortunate of all age groups. TMaG supports sports and community events near its head office in Carlsbad, California as well as charitable organisations in England, Korea and Japan.

For more see the Working with the community section.

PROGRESS AND TARGETS

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 seven years now and see this as a crucial step in being accountable to our stakeholders.

In the Progress against targets section we give ourselves a percentage mark to indicate how far we have achieved a particular target with 100% meaning we have met the target in its entirety.

We also publish the targets we are working towards in 2008.

PROGRESS AGAINST TARGETS

The table shows our progress against the priority targets we set ourselves for 2007 when our focus was on applying the harmonised social and environmental programme across all brands of the adidas Group for the first time. These targets were published in our Question and Answer booklet that we launched in early 2007. You can find this booklet and all our previous reports in the Reporting section of our corporate website at www.adidas-Group.com/sustainability

For the purpose of systematically tracking progress against our published targets, the table excludes additional achievements that were made in other parts of our social and environmental programme in 2007.

Targets 2007	Achievements	%
Ensure the consistent roll-out of our new programme standards across the supply chain.	Roll-out of major policies to all Group entities including: <ul style="list-style-type: none"> • adidas Group Workplace Standards and 'Open Letter' to workers • Factory Approval Policy • Enforcement Guidelines • Factory Termination Guideline • External Monitoring Procedure • Fair Factories Clearinghouse Data Management Procedure • Product safety and restricted substances standards. The roll-out included written announcements, briefings, audio-visual materials and both face-to-face and online training sessions.	75
Finalise supplementary guidance materials and determine how we will train and support our suppliers.	The following supplementary guidance materials were largely revised and updated: <ul style="list-style-type: none"> • Guidelines on Health, Safety and Environment • Country-level policies. Training to suppliers focused on: <ul style="list-style-type: none"> • Safety officers' qualification and registration in selected countries, namely Vietnam and China • Environmental Best Practice/Energy Efficiency training in China and Vietnam 	80

Targets 2007	Achievements	%
Finalise the Group-wide compliance data management system so we can report on our social and environmental performance.	<ul style="list-style-type: none"> • Human Resources Management training to selected factories in China • KPI and KPI tools • Strategic Compliance Plans. 	
Fulfil our obligations as members of the Fair Labor Association.	All our obligations were met: <ul style="list-style-type: none"> • Independent External Monitoring visits • Factory capacity building for FLA 3.0 and other related projects • All FLA-related project work (FLA 3.0, CAM P II, Football Project) • All reporting requirements. 	100
Ensure Sourcing decisions are increasingly informed by the rating the supplier achieved in our Key Performance Indicator (KPI).	<ul style="list-style-type: none"> • KPI was bi-annually captured for core footwear, apparel and accessories partners producing for the international export market, and shared with Global Sourcing. 	75
Become the employer of choice in our industry and our target group by becoming a 'world-class recruiter' and by extending our 'emerging employee students/ graduates' programmes beyond brands, functions and borders.	<ul style="list-style-type: none"> • adidas Group ranked number 5 in the 2007 Universum's (employer branding) Professional Survey in Germany in the relevant target group. • Group-wide emerging employees' programmes established in three regions (cross-brand). 	100
Talent Management/ Developing our people: Bring sustainability to our Group-wide programmes and monitor success, for example by conducting employee engagement surveys. Establish the adidas Group as a leader in talent management internally and externally.	<ul style="list-style-type: none"> • Successfully ran Group talent development programmes for management and also 160 participants at the executive level. • Sustainability achieved through Group-wide application of performance and talent succession management tools, which were implemented as online solutions. 	100

TARGETS 2008

Stakeholder engagement

1. To build strategic partnerships with international agencies, governments and civil society, with the objective of improving social and environmental conditions in the garment industry in China, El Salvador, Honduras, India, Mexico and Vietnam.
2. To enter into a dialogue with Hong Kong's labour and human rights community and obtain NGO views on issues surrounding the Beijing 2008 Olympic Games.
3. To expand the outreach with North American universities and collegiate NGOs.
4. To steer and support the Better Cotton Initiative (BCI) to influence environmental change in the international cotton industry.
5. To expand the participation in FLA 3.0 and include El Salvador, Honduras and Turkey.
6. To complete a feedback report, providing the adidas Group's response to the views and suggestions given in the 2007 Suppliers Stakeholder Dialogue held in Hong Kong.

Supply Chain Systems

1. To mature and strengthen the efficiency of the external monitoring model for the indirect supply chain used by adidas Group licensees.
2. To review and enhance the integrity of the data output from the Fair Factories Clearinghouse database and strengthen the input processes.
3. To complete strategic compliance planning for an additional fourteen critical business entities comprising ten licensees, one agent, one brand and two business units.

Health & Safety

1. To extend the safety officer registration and training to all directly sourced suppliers in Cambodia, Philippines, Thailand, Brazil and Argentina.
2. To develop an e-Learning training platform to support the rollout of the revised and updated version of the HSE Guidelines.
3. To extend monitoring and reporting of volatile organic compounds at footwear factories in Brazil and Argentina.

Labour

1. To review, revise and prepare the launch of an updated SEA Employment Guideline.
2. To develop and launch a Human Resources Management System training programme in China, Vietnam, Indonesia and Thailand.

3. To review and continue to strengthen our network of confidential reporting channels for worker complaints in all three regions.

Environment Product

1. To further increase the number of style developments within the adidas Sports Performance Division consisting of organic and recycled material components; product styles will be launched in 2009.
2. To commission an internationally recognised NGO to review and verify internal tools for the selection of environmental materials used in our products.

Production

1. To identify and engage with appropriate technical, brand and NGO partners to support the reduction of energy, waste and water in our core supply chain.
2. To enhance the internalisation of environmental metrics by core footwear suppliers to drive improvements in their reporting and defining reduction targets.
3. To run four energy-efficiency workshops for our suppliers in Asia and in the EMEA region to further drive the reduction in energy use.

Own Sites

1. To conduct a gap analysis of the environmental performance of adidas Group's own production sites.
2. To conduct an in-depth environmental review of the adidas Group HQ facilities in Germany.
3. To evaluate the environmental performance of the adidas Group's transport and logistics providers to support our communication on the overall environmental footprint of our business.

VISION AND GOVERNANCE

Corporate responsibility report • 11



Striving to be the global leader in the sporting goods industry is not just about results; it is about how those results are achieved.

Our vision is for everyone in the Group and our supply chain to share a common set of values and to follow responsible business practices. Our governance framework aims to help us realise this vision.

VISION AND VALUES

For the adidas Group, corporate responsibility is rooted in its values:

Performance Passion Integrity Diversity

These values come from sport and sport is the soul of the adidas Group. It is what links our past and our present. It is what orients us towards the future.

Because these values are ingrained in all of us at the adidas Group, we:

- Innovate, creating the world's leading products
- Work collectively, across ethnic and regional differences
- Perform and lead, delivering superior financial results and investment returns, and
- Maintain the highest standards of corporate responsibility in the communities in which we operate.

Our values help us to create brands that our customers believe in, and a company our stakeholders can trust. Corporate responsibility has many facets and permeates all parts and operations of the company. For the adidas Group, operating responsibly means:

- Improving working conditions in our suppliers' factories
- Reducing the environmental impacts of our operations and in our supply chain
- Caring for the welfare and development of our employees

- Making a positive difference to people in the communities where we operate.

To make these responsibilities an integral part of our day-to-day operations, they need to be anchored in the missions and objectives of core corporate functions.

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.

SUSTAINABILITY PRINCIPLES

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 Workplace Standards. 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

Social and Environmental Affairs

We are accountable for the way we do business. In particular, we accept responsibility for the way our products are manufactured by our suppliers.

As a leader in the sporting goods industry, we are dedicated to socially responsible, safe and environmentally sound practices in the company and its supply chain to enhance the value of our brands by:

- Partnering our suppliers as they plan and implement continuous improvements in employment, health and safety, and environmental conditions
- Reflecting the needs and concerns of stakeholders affected by the Group's business operations
- Supporting the Group's entities in their efforts to provide a long-term future for sport.

Our vision is clear: to enhance social and environmental performance in the supply chain, thereby improving the lives of the people making our products.

And our approach is simple: to increase accountability and transparency and make suppliers' compliance process self-governing.

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.

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 programmes and activities including corporate giving, volunteer work and community relations programmes.

MANAGING OUR RESPONSIBILITIES

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

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. The Group function Social and Environmental Affairs 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 support the development of business contingency plans and staff advisories for public health and safety issues.

For more detailed information on corporate governance and risk management, see the Corporate Governance (www.adidas-Group.com/en/corporate_governance/welcome.asp) and Investors (www.adidas-Group.com/investors) sections on the corporate website.

Employee Code of Conduct

Integrity is one of the core values of the adidas Group. Accordingly, all employees are expected to act with fairness and responsibility as well as in compliance with the laws and regulations while carrying out their tasks. In order to maintain good corporate governance, we therefore adopted a Code of Conduct as part of our internal Global Policy Manual. The Code of Conduct defines binding rules for all employees with respect to legally compliant and ethical behaviour towards other employees, business partners and third parties, for handling information – in particular insider information – as well as for dealing with financial matters. The Compliance Programme of the adidas Group is regularly updated and ensures that complaints and potential breaches

of the Code of Conduct are dealt with independently and objectively. adidas Group employees have been trained in the details of the code through a tailored e-Learning tool that was launched at the end of 2007.

SOCIAL AND ENVIRONMENTAL AFFAIRS TEAM

The Social and Environmental Affairs (SEA) Team is tasked with ensuring compliance with our Workplace Standards within the supply chain and manages the Group's environmental and community affairs programme.

The SEA team consists of a diverse group of 62 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 Group functions such as Sourcing, Legal, Facility Management and Human Resources but also with Brand Marketing and Product Development. 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.

The collaboration with Sourcing has been particularly important for improving workplace conditions in the adidas Group supply chain. Over the years, SEA has established collaborative systems and processes to ensure Sourcing fully considers compliance with workplace standards. All potential new suppliers have to undergo an initial assessment performed by the SEA team and orders can only be placed with SEA approval. And monitoring information gathered by the SEA team is regularly shared with Sourcing so it is aware of the latest compliance status of each supplier.

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.

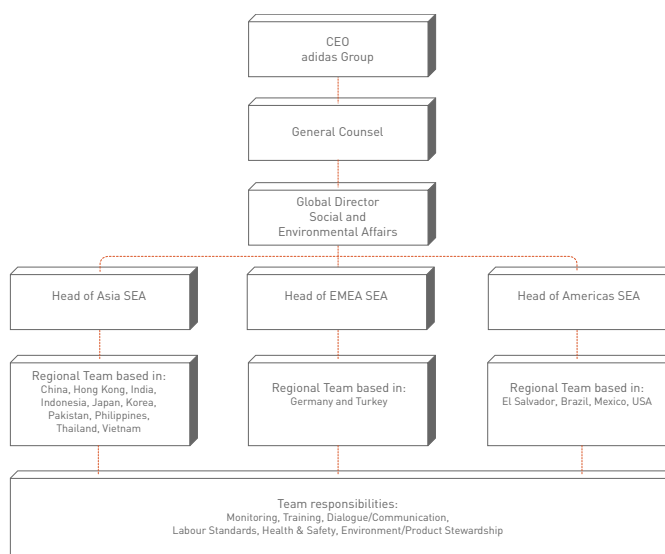
From strategy to action

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 in which our products are made.
- Raising environmental awareness and promoting environmental best practice within the Group and its supply chain.
- 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.



Managing social and environmental affairs

GROUP HUMAN RESOURCES

Human Resources management is a core function within the Group's global organisation. It is managed by Group HR, the global head of which directly reports to the Executive Board member for Human Resources. 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
- Personnel and management development
- Company sports programme and work-life balance initiatives at major Group locations
- Cross-functional issues, for example HR information systems, communication, personnel and marketing.

OUR WORKPLACE STANDARDS

The adidas Group and its brands have 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 under which they are produced. 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 these our 'Workplace Standards'.

Based on International Labour Organization (ILO) conventions, the Workplace Standards describe clear rules of conduct for issues such as the environment, safety in the workplace, child labour and hours of work. By monitoring compliance with the Standards, we can identify potential problems in contract factories and help our suppliers implement positive changes. If they repeatedly 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 Workplace Standards are a tool we use to select and retain only those suppliers whose workplace standards are consistent with our values.

The text of the Workplace Standards follows.

Workplace Standards

Performance. Passion. Integrity. Diversity.

These are the core values found in sport. Sport is the soul of the adidas Group. We measure ourselves by these values, and we measure our business partners in the same way.

Consistent with these 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.

We use the adidas Group Workplace Standards as a tool to assist us in selecting and retaining business partners who follow business practices consistent with our policies and values. As a set of guiding principles, the Workplace Standards 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 work places where the following standards and practices are implemented:

General principle

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

Employment standards

Forced labour Business partners must not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise. No employee may be compelled to work through force or intimidation of any form, or as a means of political coercion or as punishment for holding or expressing political views.

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

Discrimination Business partners must not discriminate in recruitment and employment practices. Decisions about hiring, salary, benefits, training opportunities, work assignments, advancement, discipline and termination must be based solely on ability to perform the job, rather than on the basis of personal characteristics or beliefs, such as race, national origin, gender, religion, age, disability, marital status, parental status, association membership, sexual orientation or political opinion. Additionally, business partners must implement effective measures to protect migrant employees against any form of discrimination and to provide appropriate support services that reflect their special status.

Wages and benefits Wages must equal or exceed the minimum wage required by law or the prevailing industry wage, whichever is higher, and legally mandated benefits must be provided. In addition to compensation for regular working hours, employees must be compensated for overtime hours at the rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding the regular hourly compensation rate.

Wages are essential for meeting the basic needs of employees and reasonable savings and expenditure. We seek business partners who progressively raise employee living standards through improved wage systems, benefits, welfare programmes and other services, which enhance quality of life.

Working hours Employees must not be required, except in extraordinary circumstances, to work more than 60 hours per week, including overtime or the local legal requirement, whichever is less. Employees must be allowed at least 24 consecutive hours' rest within every seven-day period, and must receive paid annual leave.

Freedom of association and collective bargaining Business partners must recognise and respect the right of employees to join and organise associations of their own choosing and to bargain collectively. Business partners must develop and fully implement mechanisms for resolving industrial disputes, including employee grievances, and ensure effective communication with employees and their representatives.

Disciplinary practices Employees must be treated with respect and dignity. No employee may be subjected to any physical, sexual, psychological or verbal harassment or abuse, or to fines or penalties as a disciplinary measure.

Business partners must publicise and enforce a non-retaliation policy that permits factory employees to express their concerns about workplace conditions directly to factory management or to us without fear of retribution or losing their jobs.

Health and Safety A safe and hygienic working environment must be provided, and occupational health and safety practices that prevent accidents and injury must be promoted. This includes protection from fire, accidents and toxic substances. Lighting, heating and ventilation systems must be adequate. Employees must have access at all times to sanitary facilities, which should be adequate and clean. Business partners must have health and safety policies that are clearly communicated to employees. Where residential facilities are provided to employees, the same standards apply.

Environmental requirements Business partners must make progressive improvement in environmental performance in their own operations and require the same of their partners, suppliers and subcontractors. 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.

ENGAGING OUR STAKEHOLDERS



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

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, describe how we engage with them and outline partnerships we have with particular organisations. The Focus 2007 section highlights how we are engaging stakeholders in our supply chain and reaching out to government and non-governmental organisations (NGOs) as well.



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, service providers

Workers in our suppliers' factories

Opinion-formers journalists, community members, special interest groups

Customers professional sports people, distributors, retailers, consumers

WAYS WE ENGAGE

We engage with our stakeholders in a number of ways:

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

SRI FUND MANAGERS AND ANALYSTS

Interest from the financial community has steadily increased. In October 2007 we accepted the invitation of a Swiss-based SRI fund to provide fund managers and SRI analysts with first-hand information about the Group's sustainability programme. Over the course of 2007 we responded to various comprehensive enquiries from socially responsible investors, fund managers and financial analysts. Every questionnaire they send us requires intense collaboration with other Group functions and departments in order to provide full and complete responses. We also gave several telephone interviews to SRI organisations from Europe and the United States. Major subjects of the enquiries and interviews were:

- Updates on recent factory cases that had been published on our website
- Further clarifications on our Workplace Standards, in particular on working hours
- Clarifications on our policies regarding product safety and restricted substances
- More in-depth information about the adidas Group's internal code of conduct for our own employees
- A general update of the company profile, which forms the basis of the assessment by analysts and investors
- Our contribution to a study on corporate ageing.

In Asia investment funds also enquired about CSR performance of the adidas Group's suppliers listed on the Hong Kong Stock Exchange.

ENGAGING EMPLOYEES ON CORPORATE RESPONSIBILITY

In order to understand our employees' views on Corporate Responsibility and to provide them with details of the Group's social and environmental programmes, we undertook the following initiatives in 2007:

Internal reporting

Due to the integration of Reebok, the adidas Group did not publish a formal social and environmental report for the year 2006. Instead a Question and Answer booklet was produced to describe the integration of the social and environmental programmes of the two brands during that year. The Q&A booklet was communicated to all our employees via our global electronic newsletters and our intranet. Hard copies were distributed to Senior Managers in each of our offices globally. In parallel with this, and as part of SEA's communication on its updated programme, a short explanatory brochure titled *Taking Responsibility* was also distributed to employees and retail staff and a new set of Workplace Standards posters were delivered to each adidas Group office.

Induction of new employees

In Asia, approximately 155 new managers and staff were provided with orientation sessions that included information on Social and Environmental Affairs. For about 90 Portland-based employees in North America, an annual HR briefing was conducted, including a history of the social and environmental programme. In Europe 173 new employees participated in five orientation sessions on SEA in the adidas Group's Headquarters in Herzogenaurach, Germany.

Training provided to employees of the adidas Group

The following training sessions took place:

- Americas – 21 training sessions, including SEA policy briefings and Fair Factories Clearinghouse (FFC) trainings, were held for more than 120 adidas Group staff from Brazil, Canada, Mexico, Peru and the United States.
- Europe – SEA team members held 21 training sessions, including FFC trainings, for a total of 109 adidas Group employees from France, Germany, Greece, Italy, South Africa, Turkey, UK and the Netherlands.
- In Asia, the SEA team provided 60 training sessions for more than 670 internal staff in Cambodia, China (Guangzhou, Shanghai and Hong Kong), India, Indonesia, Japan, Korea, Malaysia, Pakistan, Philippines, Taiwan, Thailand and Vietnam.

RESPONDING TO ENQUIRIES

Customers

In 2007, we responded to each enquiry, whether they were submitted by individual consumers or retailers. Major subjects of enquiries were:

- Product safety – the adidas Group's policy on restricted substances, especially with reference to China
- Environmental issues – the adidas Group's programme on the elimination of PVC
- The company's supplier monitoring and assessment programme
- The integration of the social and environmental programmes of adidas and Reebok
- Issues related to the Group's sponsorship of the Beijing 2008 Olympic Games
- The adidas Group's internal employee code of conduct
- Specific supplier cases.

Media

Through the course of 2007, we received more than 20 enquiries from the media on specific social and environmental issues – primarily the international press, radio and television – and granted 12 formal interviews. The nature of the enquiries have been wide ranging including the adidas Group's environmental policies, factory closures

in Indonesia and Thailand, China's new Contract Labour Law, NGO concerns related to the Beijing 2008 Olympic Games, pollution abatement in China, product safety and collegiate-licensing arrangements in the United States.

On three occasions during the year, national TV stations visited factories and filmed working conditions in Vietnam and Olympic production in China.

Non-Governmental Organisations

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

- Questions over the closure of Thai Silp, a former adidas supplier whose contract was terminated in 2006
- Concerns regarding social security and working conditions at the swimwear supplier Fook Wah in Southern China
- The reinstatement of workers dismissed by PT Panarub, a supplier independently monitored by the Worker Rights Consortium
- Repeated allegations by an NGO concerning the closure of garment factories in El Salvador (Hermosa) and in Honduras (BJ&B)
- Concerns related to the closure of three Reebok footwear suppliers in Indonesia in 2006, which resulted in large-scale layoffs and worker protests.

Our public responses to these concerns can be found in the Statements section on our corporate website at www.adidas-Group.com/sustainability

PARTICIPATION AND COLLABORATION

In 2007, 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, the Fair Factories Clearinghouse and the Fair Labor Association.

We also participated in:

Government, international agencies and federations

- Engagements with ILO Cambodia Better Factories Initiative and participation in supervisor training project; see www.betterfactories.org
- 7th World Congress on Sports and the Environment, co-hosted by the IOC and UNEP in Beijing
- Rollout of ILO-run Factory Improvement Projects in India and Vietnam
- Norwegian government-sponsored Collective Bargaining Agreement Project in Vietnam

- Presentation on environmental initiatives at the China workshop of the Footwear Distributors and Retailers of America
- European Chamber of Commerce CSR Working Group in Beijing and its Supply Chain Task Force
- The German Technical Cooperation and China State Council Poverty Alleviation Group migrant worker recruitment project
- ILO-US Department of Labor Industrial Relations Project, Vietnam
- Engagement with the Ministry of Labour and the Vietnamese Trade Union on industrial relations in Southern Vietnam
- BDA (German Employer Association) ad hoc Working Group on CSR; see www.csrgermany.de
- Engagement with the London Organising Committee of the Olympic Games (LOCOG) on supply chain management for the 2012 Summer Olympic Games
- US National Retail Federation and FFC discussions on technology solutions and information sharing
- Engagement with the Honduran government on medical coverage and health care facilities for apparel workers in rural areas
- Dialogue with the US Department of Labor and the US State Department over legal and trade issues in EL Salvador.

NGOs and multi-stakeholder initiatives

- Discussions with the Global Business Coalition on HIV/AIDS China Working Group regarding HIV/AIDS programmes being implemented with Marie Stopes International
- Forum on Supplier Relocation and Impact on Workers run by the Thai Centre for Labour Rights
- Multi-Stakeholder Initiative Pilot Project (Jo-In Project) in Turkey about workplace standards, together with six international organisations, nine brands, 14 supplier factories and various other stakeholders; see www.jo-in.org
- Engagement with WWF on CO₂ offset projects
- Dialogue with Worker Rights Consortium, United Students Against Sweatshops and the Designated Supplier Programme applicable to US collegiate-licensed products
- Discussions with the Multi-Fibre Arrangement (MFA) Forum in Mexico and Maquila Solidarity Network in El Salvador.

Other initiatives

- Multi-brand meeting with Pakistan ball suppliers to discuss labour practices in Sialkot
- Partnership with Business for Social Responsibility (BSR), to support education and awareness raising in China in relation to labour rights and occupational health and safety
- CSR Community initiative in Guangzhou, China
- General Electric (GE) stakeholder dialogue in Asia and participation in GE-led HSE round table for China
- Worker hotlines and partnerships with local Hong Kong NGOs
- Multi-brand Vietnam Occupational Health, Safety and Environment Alliance
- Nike and Levi's-run brand collaboration meetings in Asia
- Continued engagement with the Carbon Disclosure Project on the implications of climate change on commercial operations and shareholder value
- Marie Stopes International and Concepcion Caceres Women's health project in Honduras.

In some other cases we have not participated directly but nevertheless we have considered the outcomes and recommendations of other key multi-stakeholder initiatives and, where appropriate, incorporated these into our own practices and programmes.

OUTREACH TO ACADEMIA AND STUDENTS

The academic community and student groups have had a long-standing interest in the adidas Group's CSR, ethical sourcing and labour/human rights programmes. During the course of 2007 the SEA department participated in the development of graduate study materials, provided information on CSR and labour practices for postgraduate dissertations and granted access to factories in El Salvador, China and Vietnam for academic research. The universities conducting field research included:

- Australian National University, Australia
- China University, Taiwan
- Dong A University, South Korea
- Hong Kong University, Hong Kong
- University of California Berkley, United States
- Harvard University, United States
- University of Michigan, United States
- University of Wisconsin, United States

Senior SEA managers also delivered guest lectures on environmental and labour-related topics to campuses in China, Hong Kong, the United States, Germany and Vietnam. Academics at Cornell University's School of Industrial and Labor Relations engaged with SEA to elaborate on a unit of measure for worker representation, and our CEO Herbert Hainer, also spoke on the adidas Group's social and environmental programme at the European Business School (EBS) in Germany.

In North America, SEA managers continued to work on transparency exercises with university licensors. This included access to factory audit records, engagement in addressing allegations of unfair practices in specific factories and regular briefings to labour licensing committees.

PARTNERSHIPS

We have always worked closely with our business stakeholders – including customers, suppliers, shareholders and our own staff – in order to build trusting relationships. Increasingly, we are working in partnerships with social enterprises and NGOs so that together we can improve the way we conduct our business. We have listed our noteworthy partnerships in three areas:

Corporate responsibility

- World Federation of the Sporting Goods Industry (WFGSI)
- World Business Council for Sustainable Development (WCSBD)
- CSR Asia

Supply chain conditions

- Fair Labor Association (FLA)
- Fair Factories Clearinghouse (FFC)
- Round Table on Codes of Conduct, Germany
- Education Development Center (EDC)

Environment

- AFIRM Working Group
- Better Cotton Initiative (BCI)
- British Leather Technology Centre (BLC)
- INTECHNICA environmental management consultancy

CORPORATE RESPONSIBILITY

World Federation of the Sporting Goods Industry (WFSGI)

The WFSGI is an independent association formed by the industry suppliers, national organisations and sporting goods industry related businesses. It enables the sports industry (including manufacturers from developing countries as well as brands based in the richer market countries) to work together on a range of trade, legal and other issues, including CSR.

One of WFSGI's earliest project initiatives was to phase out under-age workers from football stitching. The project, which began in 1997, worked through the support of a number of different organisations, including adidas, local NGOs, the International Labour Organization, Save the Children, FIFA and UNICEF.

The adidas Group is an active member of the WFSGI's CSR Committee.

Read more at www.wfsgi.org

World Business Council for Sustainable Development (WBCSD)

The membership of the adidas Group in the WBCSD was agreed in 2000 and became effective in January 2001. The Council is a coalition of some 200 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.

The adidas Group has been engaged in various working groups over the past five years and has helped develop guidance materials about sustainable development and CSR issued by WBCSD to its members. Recent activities include contributing to a paper on the role of business in tomorrow's society and the development of a briefing paper on sustainable consumption.

CSR Asia

CSR Asia provides research and training on sustainable business practices in Asia. Operating as a social enterprise, CSR Asia occupies the middle ground between civil society organisations and a commercial consultancy. The adidas Group is a member of CSR Asia's Strategic Partner programme and in 2007 CSR Asia acted as an independent facilitator and reporter for the Group's Suppliers Stakeholder Dialogue hosted in Hong Kong.

SUPPLY CHAIN CONDITIONS

Fair Labor Association (FLA)

The 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. The FLA accredited the Reebok and adidas compliance programmes in 2004 and 2005.

In 2007, the adidas Group, including the adidas and Reebok brands, became one FLA participating group. This means the FLA evaluates the SEA programme as an integrated entity operating under one single management team, with a single, but enhanced, set of social compliance policies and practices.

As part of the Group's 2007 obligations, our suppliers received 15 independent, external monitoring and verification visits from FLA monitors, and these tracking reports can be found on the FLA's website at www.fairlabor.org. The adidas Group was also an active participant in FLA activities, including sustainability assessment (FLA 3.0), annual reporting and best practice training for suppliers.

The next FLA evaluation and programme re-accreditation for the adidas Group is scheduled for 2008.

Fair Factories Clearinghouse (FFC)

The FFC is a US-based non-profit corporation founded in 2004 and funded by member contributions and a grant from the US Department of State, Bureau of Democracy, Human Rights and Labor.

Reebok was a founding member and has been instrumental in the development of the organisation, which houses a global database of factory information and social compliance audit reports. The database enables member companies to manage and share non-competitive information about workplace conditions to help promote factory improvement. Following the integration of adidas and Reebok in 2006, the FFC has become the Group's primary factory compliance tracking system and a platform for collaborative efforts with other brands and retailers.

Read more at www.fairfactories.org

Round Table on Codes of Conduct, Germany

We regularly participate in a Round Table on Codes of Conduct, which is facilitated by the German Ministry for Economic Development and Cooperation. The Round Table provides a forum for the representatives of the private sector, trade unions, non-governmental organisations and government to meet and present on the very latest CSR developments and best practice approaches.

Project involvement

The adidas Group was a key driver in designing a project to improve working conditions and competitiveness in subcontractor factories in Romania. The project, managed by a sub-working group of the Round Table, provided management-worker dialogue training.

The project began in February 2005 and ran through until October 2006. Through effective training, the project enhanced communication and negotiation skills between

the workforce and the management of the participating factories. This in turn, fostered improvements in industrial relationships and social dialogue. In 2007, the Round Table considered how to transfer the project methodology to other industry branches and countries.

Read more at www.coc-runder-tisch.de

Education Development Center (EDC)

EDC is a US-headquartered not-for-profit group that provides education and development services. EDC's Asian office has worked closely with SEA on researching migrant labour and community issues in the region.

ENVIRONMENT

AFIRM Working Group

The adidas Group is an active member in the Apparel and Footwear International Restricted Substances Management (AFIRM) Working Group. This multi-company working group provides a forum to advance the global management of restricted substances in apparel and footwear and to exchange ideas for improving restricted substances 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.

In 2007, the members of the AFIRM group intensified their collaboration and information exchange and began development of a common restricted substances management implementation toolkit. They also broadened the scope of their environmental coverage to include waste water treatment. The AFIRM group hosted a workshop on best environmental practices and restricted substances management during the 2007 international textile and apparel exhibition held in China. Five hundred suppliers participated.

Better Cotton Initiative (BCI)

The adidas Group is part of the BCI, which promotes a more sustainable approach to growing cotton. The initiative aims to do this by training farmers to change their practices, and in particular to curb excessive water use, the biggest environmental issue associated with growing cotton.

During 2007 the principles and framework for the initiative were fine-tuned, and the first fieldwork seminars held with local experts in India and Pakistan. A similar activity for Brazil was launched, and various consultations with existing programmes in West Africa took place. Specific task groups worked on appropriate supply chain models, tracking systems and stakeholder engagement activities. Two European national environmental agencies joined BCI, thereby providing additional funds.

Read more at www.bettercotton.org

The British Leather Technology Centre (BLC)

This ad hoc group which comprises brands, leather suppliers, tanneries and scientific organisations came together to develop the BLC protocol – a comprehensive

audit system which measures, evaluates and verifies the respective chemical and environmental impacts of leather treatment processes.

The adidas Group has been a member of the BLC since late 2005 and is currently engaged in reviewing the practical application of the protocol.

Read more at www.blcleathertech.com

Environmental consultancy INTECHNICA

INTECHNICA is an environmental and management consultancy that is retained to 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.

In 2007 INTECHNICA provided specialist energy management training for our suppliers in Asia.

Read more at www.intechnica.de

COMPLAINT AND REDRESS MECHANISM

COMPLAINTS AND REQUESTS

In 2007, labour rights groups, trade union officials and workers approached SEA on more than 600 occasions, seeking help or redress to issues in partner factories.

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 COMPLAINT AND REDRESS MECHANISM

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

- Our complaint and redress mechanism has been incorporated in the Contact section of our corporate website at www.adidas-Group.com/sustainability
- 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.

OPEN LETTER TO WORKERS AND WORKER HOTLINES

Following the 2006 review of our monitoring programme and Workplace Standards, we decided to enhance our direct communication to workers through the publication of an Open Letter in each supplier factory. The Open Letters provided local language information on the Workplace Standards, described our compliance programme and featured a single contact number for our local SEA staff

or a hotline number in those places where we had partnered with an NGO service provider. The information shared through the Open Letter, complemented the long-established practice of our field monitors of sharing their contact numbers with any worker interviewed on or off-site.

The Open Letters were distributed in the first quarter of 2007 and the hotlines went live in the beginning of June 2007. Since then SEA was contacted by more than 1200 workers. 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, food quality and poor workplace conditions.

FOCUS 2007: KEY ENGAGEMENTS

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

- Suppliers' feedback, Hong Kong
- Indonesian workers' feedback on humanitarian aid efforts

The third case study describes our discussions this year on the subject of adidas-branded clothes produced under licence for students at US universities.

SUPPLIERS' FEEDBACK, HONG KONG

In 2007 the adidas Group hosted a one-day CSR workshop and stakeholder dialogue in Hong Kong. The purpose of the meeting was two-fold: to introduce the concept of CSR and its application within the adidas Group; and to obtain feedback on a variety of topics to help inform the development of the Group's social and environmental strategies. Sixty managers and directors from a cross-section of suppliers attended, including manufacturing partners, material suppliers and international transportation and logistic operators. Some of the enterprises present were multinationals; others single, large-scale suppliers with one or more factories in Asia; most were publicly listed companies from Hong Kong and Taiwan.

Summary

The first half of the day focused more on information sharing from the perspective of adidas Group on our approach to CSR and why it is an important part of our relationship with suppliers. The second half of the day enabled adidas Group vendors to look more in-depth at specific issues related to:

- The environment
- The changing Chinese labour law
- Community investment
- Vendor perspectives on CSR in China.

Facilitators

The afternoon dialogue was facilitated by a Hong Kong social enterprise, CSR Asia. Labour, environmental and community experts from CSR Asia managed a series of parallel workshops, with suppliers participating in those breakouts that were of greatest interest to them.

Findings

The new labour law

In relation to the changing labour law in China, there are numerous supplier concerns such as:

- Lack of preparation time
- Staffing and employee relations (including contracts, retirement and social insurance, employee motivation and satisfaction, building effective relationships with employees, unions)
- Costs of change
- Concern over uncertainties
- An explicit desire to better understand the adidas Group's interpretation.

Suggested actions which the adidas Group and suppliers could take included:

- Clear communication from the adidas Group regarding its 'stance', interpretation and expectations in relation to the new law
- Establishing a network for information sharing and dialogue
- Support for cost analysis to better understand the implications of the new law
- Developing a coordinated approach with other brands
- Capacity building.

The environment

Key concerns from suppliers in relation to the environment revolved around issues related to: water, energy usage, noise, wastage and packaging, designs, capacity and government regulations.

Suggested actions from participants that the adidas Group and vendors could take (depending on companies, sectors, etc.) included:

- Consider factoring environmental issues into prices
- Work with other brands to achieve change
- Educate consumers
- Develop environmentally friendly and 'fair trade' products

- Reduce excess packaging and hangtags
- Build capacity in the supply chain through workshops and other forums
- Consider approaches to deal with excess stock such as buying back
- Continue and further develop stakeholder dialogue
- Maximise orders, minimise samples and recycle where appropriate.

Community investment

In relation to community investment as an aspect of CSR, there were varying degrees of interest and understanding of how to address this. Issues that were discussed included:

- Different levels of awareness and understanding
- Uncertainty over benefits
- Need for management buy-in and top-level support
- Lack of experience in working with the community
- Ad hoc versus systematic approaches
- Uncertainty over definitions
- Need to focus on labour issues
- How to involve government.

Actions that the adidas Group and vendors could take included:

- Leadership and encouragement
- Matching funds
- Training and capacity building
- Making available other resources on community investment
- Continued and increased stakeholder dialogue.

Summary of the findings

CSR is, by its nature, understood differently by different people and companies. For suppliers, issues such as employee well-being, motivation and retention, relationship with the community, the law, environmental concerns, health and safety and benefits were noted. Actions the adidas Group and suppliers could take which participants suggested included:

- Continuing to build a partnership approach (as opposed to a policing approach)
- Support for measurement, monitoring and evaluation to demonstrate costs versus benefits of CSR.

In all of the sessions there was a deep interest from the participants in what the follow-up might be from the adidas Group.

CSR Asia's full report on the dialogue can be downloaded from our corporate website at www.adidas-Group.com/sustainability. During 2008 the adidas Group will prepare a short report offering feedback to suppliers on their views and suggestions.

INDONESIAN WORKERS' FEEDBACK ON HUMANITARIAN AID EFFORTS Background

In late 2006, three large footwear suppliers in Indonesia closed in quick succession, due to financial difficulties. As a result, some 16,500 workers were left unemployed. Given the scale of these closures, the adidas Group offered to provide humanitarian aid. Government and local trade unions were consulted and a medical care programme was set up for workers and their immediate family members. The six-month aid programme commenced in January 2007.

Challenges

The adidas Group's SEA department managed the aid programme through a local service provider. One of our biggest challenges was to ensure that information on medical care offered reached all laid-off workers, so that they could take full advantage of the assistance being provided.

Collecting workers' feedback

We felt it was important to measure the effectiveness of the humanitarian effort. A professional team from the Research Division of the Community Health Faculty at the University of Indonesia was commissioned to conduct a rapid survey to capture:

- Workers' awareness and understanding of the medical programme
- Their perception of the service and the medical benefits.

Survey findings

A statistical methodology was used and 271 workers, randomly chosen from the three closed factories, answered the survey.

The findings were generally positive with:

- 78.4% of the respondents being aware of the medical aid programme and generally knowledgeable about the services being offered
- 98.5% of the respondents perceived that the medical care met their basic needs
- 87.5% of the respondents who had used the service claimed that the procedures were simple and easy to follow.

The above findings were encouraging, given the speed with which the programme was launched and the dispersed nature of the recipients.

OUTREACH IN THE USA AND EL SALVADOR

Background

More than 300 US universities have licensing agreements with the adidas Group to make adidas-branded clothes for students. They all contain obligations spelling out the conditions under which the licensed products are produced.

Engaging with colleges in the USA

In 2007, we engaged with university licensing and labour committees, administrators and student groups at the universities of Wisconsin, Michigan, Notre Dame and UCLA. While many of these engagements were to brief the university communities on our activities, others addressed concerns of student activism. Several licensor universities requested and were given access to the auditing records of factories making their products.

The University of Wisconsin challenged us over our effectiveness in resolving the Hermosa factory case in El Salvador. The Hermosa factory shut suddenly in 2005 owing pay and overtime compensation to 250 workers, and for more than two years has failed to fulfil its legal obligations. Weak enforcement of national labour laws by the El Salvador government has compounded the situation. Although the adidas Group had not placed orders at the factory since 2002, the University of Wisconsin expected us to help resolve the situation.

"If Adidas' system requires this long to resolve even such an obvious case of labor rights violations as Hermosa, that system is obviously broken," said University of Wisconsin's SLAC member Jan Van Tol in the university newspaper the Badger Herald, 29 October 2007.

Engaging with the government in El Salvador

So what were we doing in El Salvador to try to resolve the situation? Seven months of discussions with government officials had come to an abrupt end in mid-2006. Several emails and phone calls had failed to elicit a response. Our main point of contact in the government was reassigned. And in the meantime, the workers' economic situation was getting worse. Their rights to receive precedence in bankruptcy settlements had been ignored. And the government was not making good on promises to provide the unemployed workers with the health care coverage to which they were entitled.

So in late October 2007 we took the unusual step of publishing an open letter to the El Salvador government in two national newspapers. In the letter we asked the government to reopen discussions about the Hermosa factory case and to address its failure to enforce its own labour code and indeed the national constitution.

The letter had the desired effect. Our discussions with the El Salvador Ministries of Labour and Economy started up again in December 2007 after a hiatus of more than 12 months. We are hopeful that the ex-employees of Hermosa will finally receive what is rightfully theirs.

MANAGING OUR SUPPLY CHAIN



Workers in our suppliers' factories play a central role in our programme. It was concern for their working conditions that led us to write our 'Workplace Standards'. Some of the most challenging issues facing workers are discussed in the Exploring labour standards section. 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 that further define expectations for fair, healthy and safe workplace conditions.

Our supply chain is large, multi-tiered and varied. We have a detailed approach to managing the relationships with our suppliers and we continue to develop approaches for engaging suppliers who are part of indirect sourcing models. Monitoring compliance is carried out by the adidas Group SEA staff and commissioned third-party experts, while independent auditors verify compliance or evaluate our Workplace Standards programmatic activities. We are committed to facilitating workplace improvements and work with others to achieve this, so we continue to invest in training our suppliers and reaching out to stakeholders. We have a process for enforcing compliance with our Standards and an innovative system for rating suppliers. In the Focus 2007 section, we illustrate how we are managing the compliance performance of our indirect supply chain.

OUR SUPPLY CHAIN

We work with more than 1,070 independent factories from around the world who manufacture our products in 67 countries. Many of these are in one of the following six countries: China, India, 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 and others who are not. Our influence in terms of social and environmental compliance is linked to the strength of our partnerships, and is often proportional to the scale and stability of the orders placed with our suppliers. For this reason we plan a further consolidation of the Group's supply chain: contracting fewer, larger factories, with higher order volumes.

The adidas Group's Global Operations function manages product development, commercialisation and distribution and also supervises the major part of manufacturing for the adidas, Reebok and TaylorMade-adidas Golf segments. In addition, Global Operations leads our Group's efforts in supply chain optimisation.

Due to different sourcing requirements in their respective fields of business, Rockport, Reebok-CCM Hockey, Sports Licensed Division, TaylorMade and specific business segments are not serviced through Global Operations but instead use their own purchasing organisations that are used to sourcing products through intermediaries such as agents.

In order to quickly seize short-term opportunities in their local market or react to certain trade regulations, Group subsidiaries may also source from local suppliers that are not overseen by Global Operations. Local purchases, however, account only for a minor portion of the Group's total sourcing volume.

TYPES OF SUPPLIER

Our suppliers fall into five broad categories:

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

Main suppliers

These are 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

These are 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 compliant with our Workplace Standards before authorising them as subcontractors.

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. Within this category, there are nominated material suppliers with whom we work.

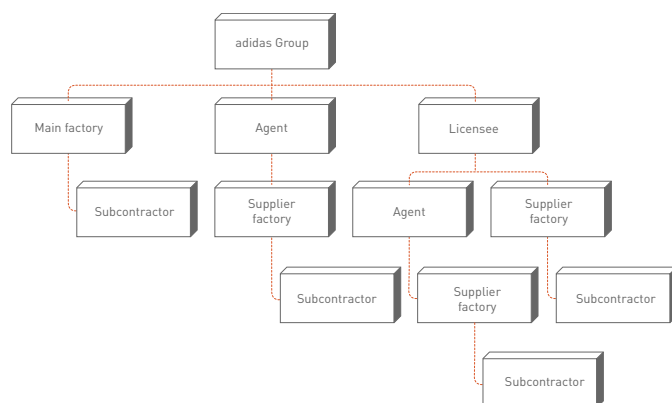
Licensees

Independent companies which manage the design, production and distribution of specific products, under licence to the adidas Group. In 2007, the adidas Group worked with 44 licensees whose suppliers manufactured products in 248 factories in 38 countries.

Agents

Independent companies that act as intermediaries and determine where products are manufactured, manage the manufacturing processes, and sell finished products to the Group. Reebok has historically placed a significant number of apparel orders through agents and licensees. In 2007, Global Operations phased out Reebok's former sourcing agents. This means that Reebok-branded apparel is now primarily sourced through our own supply base, utilising the established network of the adidas brand. Other Reebok apparel business units continue managing supplier relationships through agents or licensees.

Supplier relationships overview



Major trends in our supply chain

We see several major trends in our supply chain that have a direct bearing on the scale and focus of our social and environmental programme:

- Growing business with our strategic suppliers producing for the international export market. These suppliers have invested in additional production capacity and established factory facilities in various countries.
- Associated reduction in the number of agents managed by Global Operations.
- Growth in licensee business as the adidas Group develops new business segments.

In 2007, the top five countries per region by number of supplier sites were:

- The Americas: United States, Canada, Brazil, Mexico and Argentina
- Asia: China, Vietnam, Japan, Korea and India
- EMEA: Turkey, Italy, Spain, South Africa and Russia

EXPLORING LABOUR STANDARDS

All companies that source from developing countries face challenges in implementing codes of conduct. The adidas Group Workplace Standards set 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 the Group's 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 Workplace Standards maximum of 60 hours per week.

We established a task force 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 task force looked at internal operations at the adidas Group reviewing where we were putting pressure on suppliers regarding 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 since 2003

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 a balance between ensuring that workers consistently earn a fair wage but avoiding excessive working hours.

We will continue in our efforts to drive transparency about working hours through a rigid reporting and approval system, but also by supporting our suppliers in developing more efficient production and planning systems.

FAIR WAGES

What is a sufficient wage to cover basic needs and reasonable savings and expenditure?

To begin investigating this 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 corporate website at www.adidas-Group.com/sustainability

The Indonesian workshop was an opportunity to hear from a range of stakeholders and based on that and the reports, we continue to define a strategy that supports improved wages and benefits.

Fair wage strategy

We have been working with our strategic business partners to promote a wage-setting mechanism that:

- Is transparent and has direct input by the workers, 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 resources management system
- Meets in full all legally mandated benefits
- Where practical, promotes and supports the development of worker cooperatives.

FREEDOM OF ASSOCIATION

We believe that worker-management communication is vital for successful businesses. Workers must have effective communication channels with management to help resolve workplace issues and disputes.

In order to provide clearer guidance and a deeper understanding of these requirements, we give suppliers the Guidelines on Employment Standards, which you can view on our corporate website at www.adidas-Group.com/sustainability. The Guidelines include a dedicated section on freedom of association and collective bargaining and set out our expectations, case studies and practical activities to achieve compliance.

One form worker-management dialogue takes is through a trade union. We have taken a neutral approach to unionisation but with positive and open communication about freedom of association, collective bargaining and committees as prototypes of representation. We believe that workers' rights to freely associate must be protected, and they must not suffer because of any union affiliation. Therefore, we have persuaded factories in several cases to rehire staff dismissed for attempting to form associations.

As a buyer and third party to the employment relationship, we cannot become directly involved in forming factory associations, but we feel they have a valuable role to play in giving workers a voice and providing training on workplace safety. We have spent years trying to gain a clear picture of local political and regulatory environments in countries such as China, Vietnam, Indonesia, El Salvador, Thailand and Bulgaria.

Developing a better measure of worker-management communication

In 2007 we started to strategically look at forms of worker representation and management attitudes to representation. Working with two academics from the Cornell University School of International Relations we developed a revised unit of measure for representation in our Key Performance Indicator. We think this will more clearly define the actual factory environment and inform practical remediation.

We identified the common workplace practices related to worker-management communication in the supply chain and characterised four principal models of workers' representation:

- Unilateral management control
- Information sharing between employer and employees
- Consultation between employer and employees
- Collective bargaining.

In our engagement, we elaborated on the direct link between the prevalent model of worker representation and compliance with our Standards. Suppliers' terms of employment including hiring and termination, as well as

their communication practices with the workforce, all vary depending on the model of worker representation in a factory.

As a result we developed a monitoring worksheet that focuses on the correlation between the four principal models of worker representation and the execution of relevant employment standards. SEA team members will pilot the worksheet in specific regions to test if this approach delivers more accurate information for evaluating the quality of worker-management communication.

OUR POSITION ON CHILD LABOUR

The position of the adidas Group with regard to child labour is set out in the Group's Workplace Standards which state, 'Business partners must not employ children who are less than 15 years old, or less than the age for completing compulsory education in the country of manufacture where such age is higher than 15.'

The decision about what is the appropriate minimum age for workers has been as difficult for us as it has been for the whole industry, and one that we considered very carefully. Before reaching our final conclusions, we visited our suppliers' factories to investigate the causes of child labour, ran a number of initiatives seeking to combine active employment with access to education for juvenile workers, and consulted with both local stakeholders and international organisations, such as the UN and International Labour Organization (ILO). Ultimately, we apply those standards found in the UN Convention on the Rights of the Child and the ILO Conventions, since they reflect, most importantly, the best interests of the young people concerned.

Applying international standards

ILO Convention No 138 allows for work to be done from the age of 15 onwards, or from 14 years of age where the economy and educational facilities are insufficiently developed, and only under certain conditions. The SEA team is tasked to ensure that suppliers who employ people under age 18 fulfil these conditions. While we do not intend to promote juvenile employment, we believe that respecting international standards is both legally consistent and more practical than completely banning the employment of any worker under age 18. This is particularly true for those countries undergoing rapid development, where young people contribute to the economic support of their families.

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 on the kinds of jobs that can be done, and the total number of hours allowed to be worked. We require our suppliers to comply with these laws and to pay people below the age of 18 at the same rates as paid to 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.

Monitoring age

An important monitoring task is to check evidence of the workers' ages. Factories are required to keep copies of birth certificates, identity cards or other legal proof of age for every one of their employees. In those countries where our factories are employing workers between ages 15-17, we monitor to check that all aspects of juvenile employment conditions are met.

Continuing education and training

Moreover, beyond the basic monitoring carried out by the SEA team, the project partners we have engaged help us manage special initiatives aimed at promoting such matters as worker training, reproductive health and skills development. They are fully aware of the challenges associated with managing juvenile workers. Many of their own programmes target youth, young migrant workers in particular.

In a small number of countries, formal education finishes at age 14 and people are legally allowed to work before 15. However, we work hard to ensure that children below 15 do not work. In Pakistan and India, our involvement has been instrumental in programmes led by the ILO and the NGO Save the Children, intended to improve local schools and protect family incomes when children stop working.

As part of the programme led by Save the Children, the local NGO Sudhaar assessed the education needs of children in Sialkot, Pakistan, and then devised and delivered education and training interventions. The programme has been partly funded by the adidas Group. As of 1 September 2007, 19,266 pupils in more than 125 governmental schools directly benefit from improved school facilities and access to better education.

Football stitching centres

In 1997, the ILO, 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 under-age workers in registered stitching centres. The adidas Group has two football suppliers with registered stitching centres in Sialkot that are subject to such independent monitoring.

During the peak production period for the 2006 FIFA World Cup™ we commissioned an independent review to develop a more rigorous monitoring system for the stitching centres. This more effective monitoring system prevents the employment of under-age workers and minimises the risk of contracting with home-based stitching operations. This multi-tiered monitoring system combines our own internal monitoring activities with cross-auditing by our local suppliers. In early 2007, to sustain and strengthen the system, we hired a full-time field monitor in Sialkot and also provided additional training to our suppliers' monitoring staff.

APPROACH TO 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 require our business partners to establish a health and safety management system that addresses the standards and procedures as determined by OHSAS 18001.

Most of our footwear suppliers producing for the international export market met the target and obtained certificates. This target has been expanded to suppliers of other categories. For example core apparel, key TaylorMade-adidas Golf and most accessories and gear suppliers have been working very hard to set up health and safety management systems, some of them are in the consultation stage while others have undergone the initial audit.

Major apparel and accessories and gear suppliers were certified during 2007. Our initiatives focused on preparing the SEA team and our business partners for an increased emphasis on management systems and, in 2008, we will work with other key suppliers and small and medium-size enterprises to establish effective health and safety 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 trainings in OHSAS 18001. Selected team members attended an in-depth OHSAS 18001 Lead Auditor course, recognised by the International Register of Certificated Auditors (IRCA), UK. The participants now know how to establish an OHSAS management system, from inception through to implementation. At the end of 2006, there were four IRCA-accredited auditors in the SEA team. In China, three SEA team members have obtained the national qualification of Safety Engineer.

TRAINING ADIDAS GROUP EMPLOYEES

In 2007, SEA continued to promote a safety culture among adidas Group employees. Health and safety training sessions were provided, not only to adidas Group employees working with suppliers, but also retail staff in Hong Kong and China. CSR training was also included at the adidas Retail Academy in Singapore and other previously out-of-scope departments.

Staff in Vietnam attended NGO training sessions on managing HIV/AIDS in the workplace. SEA has supported internal business continuity planning in Asia, and training for operational staff in Vietnam, on preventative measures related to Bird Flu.

TRAINING SUPPLIERS

Training in health and safety was provided to suppliers to influence the prevailing management culture, including environments where compliance has not been prioritised and with new suppliers in the Group's supply chain, including those producing for Reebok, Reebok-CCM Hockey and Rockport.

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 (OH&S) management system. For those very small suppliers with few workers and limited resources, this package:

- Raises the awareness and importance of occupational health and safety
- Helps determine the key occupational health and safety impacts and practices for SMEs
- Demonstrates 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, pilots with two apparel suppliers were run to prepare them for OHSAS 18001 certification. Both suppliers achieved certification at the end of that year. Based on the experience from these suppliers, a manual was developed with generic guidance, procedures and instructions to operate and maintain a world-class OH&S management system. This manual is being distributed to other small and medium-sized enterprises in the supply chain.

REVISING THE GUIDELINES

As a result of the merger of the adidas and Reebok compliance programmes, the Group's existing set of Guidelines on Health, Safety and Environment were revised in 2007 to include specific management guidance for small and medium-size suppliers. The new guidelines follow the original format of the earlier HSE Guidelines, but with clearer and more specific supplements. Some sections were added to cover even more complex manufacturing processes. In 2008 an e-Learning tool will be developed to support the formal roll-out of the new guidelines.

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 fulfil our requirements, each nominated certification body must:

- Operate according to the OHSAS 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 a relevant institution, such as UKAS in the United Kingdom
- Be located in at least three of our major sourcing countries
- Incorporate our Workplace Standards, as well as our employment, health and safety guidelines.

THE SAFETY OFFICER PROJECT

The Safety Officer Project kicked off in 2005. It aims to enhance the skills of safety managers in factories and to raise the profile of this important role. In 2006, the Safety Officer Qualification and Registration guidance note was launched. Training was provided so suppliers could understand what was required and could select the employee to be trained and registered as the safety officer for the company.

Since then, around 500 people from our key footwear and apparel suppliers have been nominated as safety officers. Of these, 241 successfully passed the examination and were registered as level 3 safety officers. That is, they demonstrated a basic understanding and competency in health and safety. Once the programme is extended to non-key suppliers, we expect the nominations in Asia to more than double.

ENCOURAGING ENGAGEMENT

In 2006, the adidas Group sponsored an HSE Quiz Competition, launching it with 80,000 workers in the Asia Pacific region. This competition was designed to increase health, safety and environmental awareness at all levels of the workforce. Selected suppliers organised the competitions at their facilities and contributed a factory champion to the grand final competition. In order to continue fostering a health and safety culture, in 2007, SEA China organised a second HSE competition, where workers from our footwear suppliers were invited to submit a drawing depicting the health, safety and environmental programme. Twelve footwear factories with around 60,000 employees participated, and 113 posters were submitted. The best posters were chosen to illustrate a 'Worker Safety Handbook'.

HSE OUTREACH

To achieve the greatest impact of our HSE efforts and to bring about positive, sustained change for workers within our supply chain and the industry as a whole, in 2007, the SEA team members frequently collaborated with other companies and worked on joint projects.

- We presented to the EU Chamber of Commerce and participated in an American Chamber of Commerce HSE seminar. We were also invited to participate in the China Occupational Health Workshop for government occupational health officials.

- We were approached by an US-based NGO to expand the scope of our safety officer registration system beyond the adidas Group to the whole industry in China.
- We were also invited to join an HSE Academy to build up a work injury prevention programme for 50 factories in Guangdong province, China.
- The SEA team participated in the CSR Forum, jointly organised by China's Ministry of Commerce and the UN's Global Compact Office, where we shared our experiences implementing HSE programmes within the Group's supply chain.

SUPPORTING GUIDELINES

The Workplace Standards 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 factory settings. These expand on our Workplace Standards, giving detailed instructions and practical examples for implementation.

The guidelines are also used by our SEA team to:

- Guide and evaluate whether a supplier is complying with our Standards
- Advise and train our suppliers in improving their performance.

We regularly create new guidelines and revise existing ones. There are currently six guidelines, which are further complemented by specific supplementary materials. The six guidelines are:

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

In the course of 2007, the major components of our guidelines were reviewed and revised. These enhanced guidelines will be formally launched throughout the Group during 2008.

GUIDELINES ON HEALTH, SAFETY AND ENVIRONMENT

The HSE Guidelines are the result of the numerous HSE audits conducted with external specialists since the inception of the SEA programme. The guidelines contain comprehensive written instructions, photographs, charts, symbols and specific examples of good and bad HSE

practices. Several language versions are available to suppliers. These guidelines are also complemented by specific supplementary guidance materials.

GUIDELINES ON EMPLOYMENT STANDARDS

The guidelines set out the employment standards, case studies and examples of common non-compliances, suggested systems and solutions for avoiding non-compliance, documentation requirements and relevant international laws. Several language versions are available to suppliers. These guidelines are also complemented by specific supplementary guidance materials.

GUIDE TO BEST ENVIRONMENTAL PRACTICE

Designed as the third component in managing social and environmental affairs, this guide aims to help our suppliers meet the environmental requirements of our Workplace Standards and move beyond regulatory compliance. The guidance illustrates how to follow sustainable business practices and reduce costs by using energy efficiently, reducing waste and preventing pollution.

WORKER COOPERATIVE GUIDELINES

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

ENFORCEMENT GUIDELINES

First finalised in 2004, then revised again in 2006 and in 2007, the Enforcement Guidelines cover the principles of enforcement of the Workplace Standards and the range of remedies for breach of standards. Such sanctions or remedies include reducing orders, commissioning third-party investigations and, as a last resort, terminating the manufacturing agreement.

GUIDELINES ON SUSTAINABLE COMPLIANCE

As stated in the Workplace Standards, we expect our suppliers to deliver continuous compliance improvements in their operations. This means that business partners must internalise compliance and take ownership of their activities that ensure long-term, consistent compliance execution. To internalise the Standards means developing effective systems to manage employment and HSE issues. To maintain these systems management must be engaged and the necessary resources committed.

The Guidelines on Sustainable Compliance were designed to be a reference point for suppliers establishing an internal compliance programme. They were developed in 2004 and introduced to strategic suppliers in mid 2005. The Guidelines define specific performance benchmarks, spread over timelines up to three years that would inform the SEA Key Performance Indicator. In 2006, the Guidelines were primarily applied to core footwear and apparel suppliers who are covered by the Group's World Class Supply Chain programme.

In 2007, the Guidelines were integrated in other monitoring tools such as the strategic compliance planning tool. The strategic compliance planning tool is increasingly used in the relationship between the Group's brands, business entities and the supply chain to track, assess and report their respective performance in managing supply chain compliance. By the end of 2007 there were more than 20 plans implemented with business units.

ROLL-OUT OF GROUP-WIDE POLICIES AND STANDARD OPERATING PROCEDURES

In 2007, we produced and rolled out detailed information packages about uniform policies and standard operating procedures to all entities of the adidas Group.

Core policies and procedures include:

- adidas Group Workplace Standards – our Group-wide principles for fair, safe and healthy working conditions in our supply chain
- Factory Approval Policy, which describes the procedures for getting SEA authorisation for all production and suppliers for the Group
- Enforcement Guidelines, which describe the approach to enforce the Workplace Standards with our suppliers
- Termination Guideline, which describes our approach to ethical termination of suppliers
- Fair Factories Clearinghouse procedure, which describes the responsibilities for disclosing and maintaining data in the Group's supply chain database.

In-depth training was provided to major Group entities in applying these processes and guidelines.

You can download the full versions of these guidelines from our corporate website at www.adidas-Group.com/sustainability

MANAGING OUR SUPPLIERS

Our ability to influence change in social and environmental compliance strongly depends on the type of relationship the Group holds with its suppliers and the volume of orders placed there.

The adidas Group holds direct contractual relationships with its core suppliers who are centrally supervised by Global Operations. These suppliers produce the predominant share of the total sourcing volume of the Group, and can be characterised as our 'direct supply chain'.

The other part of our product volume is sourced by agents or is made under licence. Agents place orders with their preferred suppliers. Licensees may either place orders directly with their suppliers or use agents as intermediaries.

This portion of our sourcing volume is our 'indirect supply chain'. See our case study on 'Moving the boundaries' for more on managing our indirect supply chain.

'PARTNER FOR CHANGE' – MANAGING OUR DIRECT SUPPLY CHAIN

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.

We promote effective human resources, health, safety and environmental management systems as an effective way to internalise continuous improvement, and we have now made implementing a health and safety management system mandatory for all our core suppliers. Strategy development and execution must be in the hands of qualified, committed and capable middle managers who are supported and empowered by senior management. The Lean manufacturing initiative and SEA activities strive to be collaborative and ensure that suppliers establish systems that support fair, healthy and safe work conditions and deliver improved efficiency and productivity.

HOW WE WORK WITH SUPPLIERS

Over the past ten years, we have continually refined our methods, tools and techniques to promote compliance in our supply chain. The principal cornerstones of our management approach are described below.



Beginning with the foundation of our programme – our Workplace Standards – these are the steps we go through to manage our supply chain and improve workplace and environmental conditions.

Standards and guidelines – We have had a supplier code of conduct for ten years – the latest version is our Workplace Standards. Based on extensive experience of applying the Standards, we have produced guidelines for our suppliers, which help us to work together to find solutions to problems in the workplace.

Capacity building and outreach – We train our suppliers so they understand the importance of establishing and maintaining management systems and open lines of communication with those concerned about how they operate, such as government officials, local communities or the workers themselves.

We offer training on all key issues including labour, health and safety, 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. Normally we follow up the training

with consultation and progress review activities, to help the factory in achieving its training objectives. We also provide training with other brands that source from the same factory.

Monitoring and verification – We have a dedicated team of auditors which monitors a supplier's performance against our Standards.

Effective compliance needs committed management that is responsive to feedback. We have refined our auditing approach to be able to close the compliance gap where suppliers are delivering practices in a superficial, opaque and ineffective way.

We also value independent monitoring by third parties because it helps us to improve how we work and adds credibility to our programme. So in 1999 we joined the Fair Labor Association (FLA) in the United States, which is a non-profit organisation dedicated to improving working conditions in factories around the world.

By working cooperatively with companies, NGOs and universities, the FLA developed a workplace code of conduct based on International Labour Organization standards, and appoints accredited inspectors to conduct unannounced factory visits and check if suppliers are meeting the standards.

Rating – We audit our suppliers against our Standards and rate them according to their performance. We use an innovative way to rate the supplier on its ability to deliver fair, healthy and environmentally sound workplace conditions in an effective manner.

Sourcing decision – Rating results are incorporated in the overall supplier rating that informs our decision of which suppliers to use.

MONITORING COMPLIANCE

We audit our suppliers to ensure they are complying with our Standards. Independent monitoring of our suppliers has also been carried out since 2000.

STRATEGIC MONITORING

Over the years our approach to monitoring our suppliers matured and has been permanently refined to include the lessons learnt from our supply chain compliance programme.

The monitoring approach we actually apply for our core supply chain is called 'strategic monitoring'.

How strategic monitoring is different

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.

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 each factory that is monitored.

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.

This approach means deeper monitoring of fewer suppliers, where factories may be visited two or three times more often than previously.

For audit numbers, see the Audits and training page of our Performance data section.

PRE-APPROVAL OF NEW SUPPLIERS

All potential new suppliers undergo an initial assessment carried out by the SEA team, and orders cannot be placed with a new supplier without SEA approval. By setting a high entry bar for potential and new suppliers, we avoid getting into business relationships with suppliers that have serious workplace issues and insufficient means of improving unacceptable conditions.

LINKS WITH THE KPI

Both the initial assessment and monitoring approaches for active suppliers have been successfully linked to the KPI factory rating and the strategic compliance planning process. The latest version of the KPI, which measures the delivery and effectiveness in six compliance units, has been in full use since 2006.

Strategic compliance planning is used with selected core suppliers. While neither tool replaces the monitoring process, they have been designed as management benchmarks to track overall factory compliance performance and to inform decisions about investment activities.

VERIFYING COMPLIANCE

Both Reebok and adidas have played a pivotal role in the formation of the Fair Labor Association (FLA), a tripartite organisation of companies, universities and NGOs dedicated to the sustainable improvement of workplace conditions. Through the FLA, we seek to provide verified information about our programme to stakeholders. As a participant in the FLA, the adidas Group commits to:

- The labour standards in the FLA code of conduct
- Extensive internal monitoring
- External monitoring by independent monitors
- Remediate and prevent instances of non-compliance

- Public reporting
- Participate in the FLA's third-party complaint system.

In 2004 and 2005, the FLA accredited the individual compliance programmes of adidas and Reebok. This indicated that we satisfactorily completed an initial three-year implementation period. The FLA found that both brands were in 'substantial compliance with FLA requirements to implement a rigorous workplace code of conduct in factories making the company's products'.

In 2006, both brands remained individual participating companies in the FLA but under one operational management. In 2007, the adidas Group, including the adidas and Reebok brands, assumed the role of a single FLA participating company. This means the FLA evaluates the SEA programme as an integrated entity operating under a single management team, with a single, but enhanced set of policies and practice. The next FLA evaluation and programme re-accreditation is scheduled for 2008.

For the past six years FLA-accredited independent monitors have conducted monitoring visits to suppliers of the adidas Group. In 2007, FLA monitoring exercises included twelve monitoring audits and three external verification visits.

For more see the Performance data section on Audits and training.

TRAINING OUR SUPPLIERS

In 2007, we continued our intensive efforts to provide training for our suppliers as well as for the SEA team, licensees and employees from the adidas Group's operations departments.

We have three main approaches to training content:

- Fundamental training: includes introductory training for the Workplace Standards, Fair Factories Clearinghouse (FFC) data entries, new factory approval process and the SEA operating guidelines
- Performance training: includes detailed training on specific issues on labour, health, safety, and environmental practices, as well as initial assessment monitoring methods
- Sustainability training: includes training in the KPI and rating tools, sustainable compliance planning and supplier self-assessment methods.

In 2007, 267 training sessions were conducted by the SEA team for more than 3,500 adidas Group employees, licensees, agents, distributors and suppliers.

Employees of the adidas Group included staff from Global Operations, Legal, Product and Quality Management, Development, Finance, Corporate Communications and Brand Marketing management.

Included in this total number are 123 supplier group training sessions that are training sessions with the participation of more than one supplier:

- Americas – there were 42 training sessions provided to more than 180 adidas Group staff and suppliers' compliance personnel
- EMEA – there were 35 training sessions for more than 180 adidas Group staff and suppliers' compliance personnel
- Asia – there were 190 training sessions for more than 3,140 internal staff and suppliers' compliance personnel. Nearly a quarter of the training packages were delivered in China. Most of these were supplier group training sessions with in total just under 1,000 participants.

TRAINING INITIATIVES

Americas

There was active participation by SEA in the FLA's Central America Project that delivered training on best practice guidelines for hiring, dismissals, grievance and discipline to Central American labour inspectorates, maquila associations and suppliers.

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. SEA training sessions on strategic compliance planning took place for selected key regional suppliers. The Maquila Industry Associations in Honduras and Guatemala were engaged frequently to clarify compliance expectations, local laws and sustainable compliance activities.

Asia

Human Resources Management Systems training

In 2007, work on the Human Resources Management Systems (HRMS) Project continued in China. With the addition of another brand's suppliers to the project, SEA staff participated in an expanded project team, collaborating on a range of activities, including:

- Observing factory trainee sessions
- Resolving problems which emerged during the various modules
- Agreeing on human resources metrics to be implemented and tracked by suppliers (for example training costs, detailed breakdowns on worker turnover)
- Reaching out to other potential project partners.

SEA staff also began to consider how we could incorporate our assessment of suppliers' implementation of HRMS at the factory level into our own monitoring practices. To that end, various SEA team members continued to attend HR trainings to enhance their skills in this area, and in 2008 comprehensive training on the HRMS project and its implications for monitoring of suppliers will be conducted by the global SEA team.

Further training initiatives

In Cambodia, China and Vietnam, the SEA team worked closely with local arbitration bodies, external consultants and the ILO, to develop and run dispute resolution training for suppliers.

adidas Group representatives have also participated in an ILO-run Factory Improvement Programme (FIP) in Vietnam. The FIP has six primary modules providing training to factories on quality, productivity, cleaner production, human resource, workplace cooperation and industrial relations.

Freedom of association has been the focus of training conducted in 2007 for suppliers in Thailand, with special attention given to improving the communication between committee members and management representatives in the Worker Welfare Committees formed under the Thai Labour Relations Act.

Efforts to strengthen occupational health continued, with training sessions for suppliers on OHSAS 18001 management systems in China and medical training sessions for the clinicians in key apparel suppliers in China, Indonesia, Thailand and Vietnam. In 2007, greater effort was also made to raise awareness of occupational health in major TaylorMade-adidas Golf suppliers.

Service providers were identified in Indonesia and customised HR training and consultation was conducted for our larger suppliers.

In Vietnam, Thailand and China, the SEA team engaged with local NGOs, consultants and the ILO to build supplier awareness of Employee Welfare Committees and Collective Bargaining Agreements.

Read more about training in our Performance data section.

ENFORCING COMPLIANCE

ENFORCEMENT GUIDELINES

The Enforcement Guidelines cover the principles of enforcement of the Workplace Standards, and those sanctions or remedies we will apply where the Standards are 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 repeated violations of the Workplace Standards or local laws have become a matter of public interest
- Warning letters – in cases of ongoing and serious non-compliance

- Reviewing orders
- Commissioning of special projects – to remedy particular compliance problems.

TWO TYPES OF NON-COMPLIANCES

Breaches of the Workplace Standards are categorised into zero tolerance points and threshold issues. Zero tolerance includes prison labour, serious, life-threatening health and safety conditions and repetitive or systematic abuse. The Enforcement Guidelines for zero tolerance is the supplier's disqualification from the adidas Group supply chain. Threshold compliance issues include serious employment issues, serious health, safety or environmental issues and any combination of the two. The Enforcement Guidelines for threshold issues can disqualify a new supplier from production or lead to enforcement actions with existing suppliers.

In 2007, we expanded the reach of the Enforcement Guidelines and engaged third-party representatives in the indirect sourcing models. Existing Group relationships were modelled to define clear and effective lines of responsibility with the third-party supply chain and the adidas Group.

WARNING LETTER SYSTEM

We strongly believe in a partnership approach, and where a supplier is performing poorly in terms of the Workplace Standards 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 the management to address the issues, we will, when appropriate, issue a formal warning letter.

For threshold compliance issues, three warning letters will usually result in an immediate recommendation to terminate. In very serious cases or in cases of zero tolerance non-compliance, a single letter will be issued advising our suppliers that SEA has recommended the business relationship be terminated. Our Sourcing, Business Unit and Legal departments would then follow up with a formal notification of the end of the business relationship.

There are tables showing numbers of warning letters, terminations and rejections on the Enforcement data page in the Performance data section.

RATING OUR SUPPLIERS

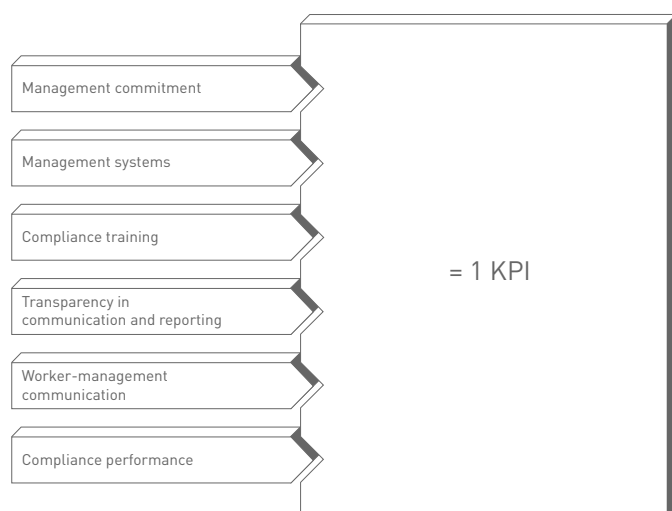
The new Workplace Standards Key Performance Indicator (KPI) was completed in 2006, and applied within our core global supply chain. Mainstreaming of the KPI, started in Q4 of 2005 with desktop exercises for supplier applications, continued in 2006 with rating exercises integrated into the majority of field monitoring activities. Newly integrated core suppliers for Reebok received KPI rating exercises.

THE KPI'S SIX UNITS OF MEASURE

- 1. Measuring management commitment and responsiveness** to a strategic compliance plan. This 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.
- 2. Measuring supplier management systems for HR and HSE** includes an evaluation of certifications for environment and health and safety, development of HR and HSE systems, retention of qualified professionals for those management systems and internal audit assessments of labour and HSE practices.
- 3. Measuring worker-management communication 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 communication. There is an evaluation of the communication committee's effectiveness and sustainability and the training needs assessment used by the factory to develop worker and management training.
- 4. 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.
- 5. Measuring transparency in communication and reporting** focuses on pro-active 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 Workplace Standards to the workforce and subcontractors.
- 6. Measurements for compliance activities** that focus on the factory's management response to findings of non-compliance, remediation or enforcement actions.

In 2007, the application of the SEA Key Performance Indicator was extended to a selected group of core Reebok suppliers.

Measuring supplier performance through six units of measure.



The following table shows the average audit score (expressed as a percentage) of those core suppliers that were rated against the six units of measure in the KPI during 2007.

KPI unit of measure	Average score in %
Management commitment and responsiveness	64
Management systems	45
Worker-management communication and industrial relations	64
Compliance training for workers and management	55
Transparency in communication and reporting	74
Compliance performance	60

FOCUS 2007 – MOVING THE BOUNDARIES

OUR APPROACH TO MANAGING COMPLIANCE IN OUR INDIRECT SUPPLY CHAIN

With the acquisition of Reebok and the merger of both brands' supply chains, the adidas Group supply chain has become more complex. While significant progress was made in consolidating the number of suppliers, and a major share of the Reebok brand supply chain has been brought under the direct management of Global Operations, some business entities of the adidas Group follow their own sourcing arrangements. Normally, these business units do not establish direct supplier relationships but source products through intermediaries such as agents.

Furthermore, new market opportunities for certain product categories are exploited through agreements with licensees who independently manage production.

This development prompted us to refine our existing compliance model and to pursue an approach that seeks to provide all of the following equally:

- Continued support to our core suppliers and Global Operations in their efforts to achieve self-governance
- The necessary supply chain oversight and transparency within the indirect supply chain
- Effective risk management by prompting business entities and licensees to become accountable for their supply chains.

In 2007, we have taken the following steps to respond to the challenges we face in managing our indirect supply chain.

Launch of Group-wide policies and procedures

As mentioned, mandatory core policies and procedures were issued to all adidas Group entities and include:

- adidas Group Workplace Standards – our Group-wide principles for fair, safe and healthy working conditions in our supply chain
- Factory Approval Policy, which describes the procedures for getting SEA authorisation for all production and suppliers for the Group
- Enforcement Guidelines, which describe the approach to enforcement of the Workplace Standards with our suppliers
- Termination Guideline, which describes our approach to ethical termination of suppliers
- Fair Factories Clearinghouse procedure, which describes the responsibilities for disclosing and maintaining data in the Group's supply chain database.

External monitoring practices

Business entities are obliged to commission external audit firms to carry out initial assessments in their supplier factories. After an in-depth review of the quality of external monitoring services available in key sourcing countries, a list of preferred external auditing firms was developed. Business entities or licensees can choose external monitors from this list.

We developed detailed guidance so external monitors could conduct assessments in a consistent way. Where these assessments identify the need for remediation processes, these are then overseen by the SEA team.

Strategic compliance plans as report card

Since 2007 business entities and licensees have been required to submit strategic compliance plans to SEA on a regular basis. These plans outline their strategies, programmes and action steps to ensure compliance in their supply chains. The compliance plans help us track and evaluate the commitment and effectiveness of our business entities' management in ensuring sound compliance practices.

In 2007, strategic compliance plans were developed with twenty business entities.

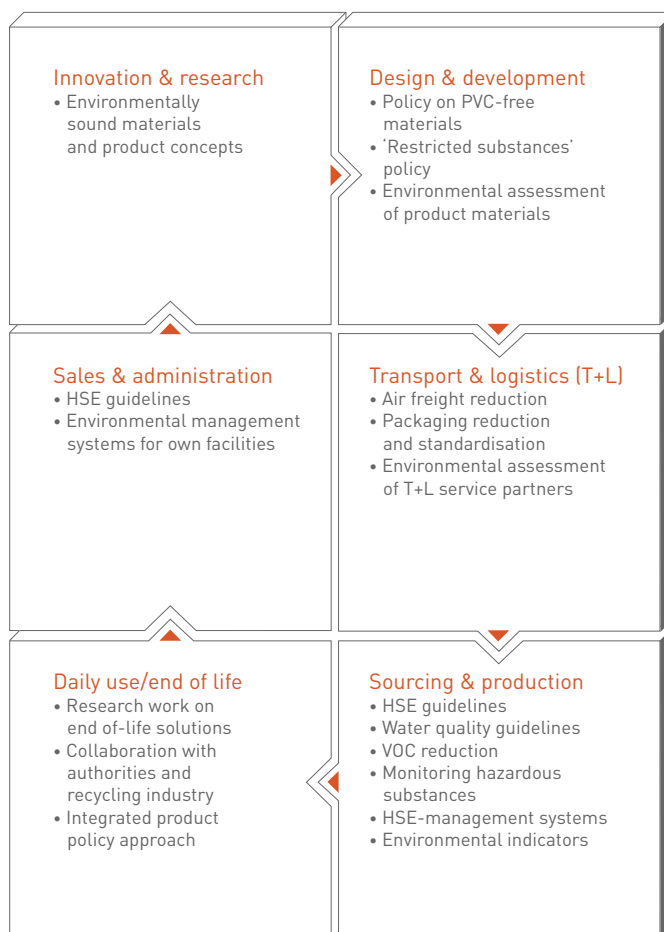
PROTECTING THE ENVIRONMENT



As a global business operating in more than 55 countries, the adidas Group has a responsibility to look after the natural environment, both for people today and in the future. Environmental impacts occur in various forms at all stages of the lifecycle, from product design to disposal.

Production has been largely outsourced, so the greatest environmental impacts occur at our suppliers' sites, where more than 95% of adidas Group products are manufactured. The company focuses its activities on helping suppliers establish sound environmental management systems as the best way for them to reduce their environmental impacts. Using the environmental performance of its own production sites as examples of best practice, the adidas Group develops appropriate guidelines and training programmes for its suppliers.

The adidas Group adopts a systems-based approach to managing environmental impacts in its own production facilities and in the supply chain. Within the lifecycle of its products there are two points in the design and development process where a significant difference to the company's environmental footprint can be made. The first is in improving the materials that go into the products, and the second is in tackling pollution in factories. Ensuring product safety is also an imperative for product management, development and manufacturing processes.



Product lifecycle and related programmes

MANAGING ENVIRONMENTAL IMPACTS AT OUR OWN SITES

With the acquisition of Reebok and its brands, the adidas Group now operates four main administration sites (one in Germany, three in the USA):

- Headquarters of the adidas Group in Herzogenaurach, Germany (2,400 employees)
- Reebok Headquarters in Canton, Massachusetts, USA (1,200 employees)
- adidas America Inc. Headquarters in Portland, Oregon, USA (770 employees)
- TaylorMade-adidas Golf in Carlsbad, California, USA (850 employees).

The adidas Group also operates 14 sites where manufacturing processes take place.

OUR PRODUCTION SITES

Production sites are located in Germany (1), Sweden (1), Finland (1), USA (4), Canada (5), China (1) and Japan (1). These facilities produce garments, athletic footwear, ice hockey sticks, helmets and blades and carry out screen-printing, embroidering and assembling of golf clubs.

A full overview of the sites is given below:

Factory	Location	Brand/ Division	Product/ Operation
adidas-Suzhou Co. Ltd.	China	adidas	Active wear
adidas AG, Scheinfeld	Germany	adidas	Basic athletic footwear
Saxon Athletic Manufacturing Inc. and Campus Athletic Inc.	Canada	adidas	Cutting and sewing
TaylorMade-adidas Golf	USA	TaylorMade	Assembly of golf club components
TaylorMade Golf Co. Ltd.	Japan	TaylorMade	Assembly of golf clubs
Sport Maska Cowansville	Canada	CCM	Hockey sticks
Sport Maska St. Hyacinthe	Canada	CCM	Apparel/jerseys
Sport Maska St. Jean	Canada	CCM	Skates
RBI Plastiques	Canada	CCM	Helmets/ice skate blades

Factory	Location	Brand/ Division	Product/ Operation
KHF Sports OY	Finland	CCM	Hockey sticks/ blades
JOFA AB	Sweden	CCM	Helmets/ protective equipment
Group Athletica Mattapoisett	USA	Sports Licensed Division	Finishing, embroidery, ticketing, packaging and shipping
Group Athletica Indianapolis	USA	Sports Licensed Division	Screen printing, embroidery, ticketing, packaging and shipping
Valley Apparel	USA	Sports Licensed Division	Screen printing, embroidery and warehouse

The production facilities comply with local laws and regulations, and have HSE programmes that are managed by designated HSE coordinators and staff. Sites in Germany and China have been certified in accordance with EMAS II and ISO 14001. Corporate Guidelines for Health, Safety and Environment have been produced at Group level to support facility managers and HSE coordinators.

In 2007, there were no legal prosecutions reported for environmental liabilities at the Group's own sites.

Below are examples of how we manage environmental issues at our own sites.

Global Technology Center in Scheinfeld, Germany

This small-scale athletic footwear factory produces premium football boots and made-to-measure shoes, but also operates a warehouse and a flock transfer printing department. Scheinfeld was the first factory in the sporting goods industry to obtain certification according to EMAS – in 1998 – and it was re-certified under the EMAS II scheme in 2001, 2004 and has successfully undergone this exercise again in 2007. Read an independently verified report about the site's environmental achievements and future targets on our corporate website at www.adidas-Group.com/sustainability

adidas-Suzhou, China

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.

TaylorMade-adidas Golf, Carlsbad, USA

Starting in 2005, our site in Carlsbad, California began implementing the so-called 6S approach (Sort, Straighten, Shine, Standardise, Safety, Sustain), which led to

restructuring the office and workplace layout and an improvement in its environmental, health and safety performance. This commitment to continuous improvement was further supported during 2005/2006 by an engineering risk assessment conducted by a European-based consultancy. Recommendations included using a noise dosimeter, installing air circulation systems and various ergonomic aspects.

In 2007 an energy audit took place at this site. It re-confirmed that the most energy-efficient light bulbs are already in use, and that they can also be considered environmentally-friendly because of their particularly low mercury content. Furthermore, the air conditioning was checked and found to be very energy-efficient.

ADMINISTRATION OFFICES

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

Nonetheless, besides adhering to specific local laws, Corporate Guidelines for Health, Safety and Environment have been produced to support facility managers and HSE coordinators. These guidelines provide best practice advice for workplace ergonomics, eco-purchasing of office materials and resource savings through ordering chlorine-free print and copy paper, collecting and recycling/refilling printer cartridges and using energy-saving printers and lighting.

Building in environmental efficiencies

We consider environmental issues whenever we design new buildings or refurbish existing ones. For example, a range of building projects at the World of Sports HQ site in Herzogenaurach was begun in 2007 and will be completed over the next three-year period. Comprehensive environmental reviews were conducted by environmental consultants to ensure that environmental considerations were included in the design and planning phases.

The World of Sports, adidas Group HQ in Herzogenaurach, Germany – environmental activities

The World of Sports offers unique surroundings for the corporate headquarters of the adidas Group. Conceived as a campus, the area covers 39 hectares in the northern part of Herzogenaurach. Besides office buildings, it features sports and outdoor areas, state-of-the-art exhibition halls and an award-winning staff restaurant located on the banks of an artificial lake. The comb-shaped office buildings house the majority of the Herzogenaurach-based adidas Group employees. The World of Sports area was developed by considering best practice environmental techniques. For example, the employee restaurant Stripes was built based on an innovative ecological climate concept which eliminates the need for energy-intensive air-conditioning equipment. In 2007, there were around 1,400 employees from more than 50 nations working at the World of Sports.

In the course of 2007, the Facilities and Services department refined its systems for monitoring environmental data to create more specific indicators such as KWh per employee or KWh per m². Since the Group's HQ is always being developed and 2007 saw the start of several new construction projects, data for the year is difficult to compare with previous years.

In November 2007, a comprehensive environmental review of the existing facilities and their operations was begun. The goal of this project is to identify further opportunities to gain energy and resource efficiencies at the site. The results of the environmental review will be published mid-2008.

adidas North America Headquarters in Portland, USA – environmental activities

Beginning in 1999, adidas America consolidated and rebuilt a former medical centre into its North America Headquarters – 'adidas Village'. Two office buildings, a gym facility, football field, tennis court, parking garage, visitor surface lot and a public park were built. In 2002 the 'Village' was opened for its employees.

One of the primary goals of the adidas Village project was to make it as energy efficient as possible and to minimise the environmental impact of the building materials used. To this end, adidas enlisted the assistance of the Portland General Electric's Earth Advantage programme to certify that the Village project has met the programme's standards for energy efficiency, quality indoor environment, environmental responsibility and resource efficiency. Within this project the following requirements were met:

- Significant energy efficiency compared to the former medical buildings
- Reuse of most of the building components instead of complete demolition
- Use of certified sustainable wood flooring – Eco Timber – in the main entry and adjoining hallways
- Use of natural daylight
- Design of environmentally appropriate landscaping.

Salmon-Safe Certification – in 2006, Salmon-Safe conducted an in-depth assessment of the overall land management policies and operations at adidas in Portland that directly and indirectly affect water quality and fish habitat.

Salmon-Safe is an independent non-profit organisation devoted to restoring agricultural and urban watersheds so that salmon can spawn and thrive. Salmon-Safe land management involves conservation practices that benefit the watershed where the farm or other site is located.

In 2007 an extensive evaluation of the drainage systems, irrigation and landscape practices took place. This assessed the quality of the screening of storm water run-off, which has the potential to pollute the nearby river and harm the fish habitat there. A very positive report was received, and the Portland facilities were awarded with the Salmon-Safe Certificate.

Boiler Plant Study – after completing an engineering assessment of the heating plant, it was decided to replace two heating boilers. The new high-efficiency units were installed in 2007 and are directly controlled by the energy management system. They have ultra-low emissions and consume 20% less natural gas than the old boilers.

Recycling programmes – in close co-operation with the local janitorial service and waste contractor, the recycling programmes have been significantly expanded to include glass, aluminium, paper, corrugated card, batteries, solvents and compact discs.

Employee communication – in close co-operation with the marketing team, an employee communication programme about the on-site environmental programmes was begun in 2007, and will be further developed in 2008.

Reebok Headquarters in Canton, USA – environmental activities

The Headquarters of Reebok International Ltd, located in Canton, Massachusetts, USA, is set within 42 acres of landscaped grounds. The site incorporates the headquarters building, extensive indoor and outdoor athletic/fitness facilities and an on-site child care facility.

This facility, operating since 1999, went through an environmental re-engineering process in 2003/2004, which also covered the linked distribution centres. Systematic upgrades for the heating, cooling and lighting equipment have resulted in an annual saving of nearly 2 million KWh per year.

An ongoing office paper-recycling programme has been established and the scope of recycling activities was enlarged to cover mobile phones, batteries, business DVDs, copier toner cartridges and kitchen service material. This led to recycled volumes growing from an average of 4.7 tonnes/month in 2006 to 6.8 tonnes/month in 2007. The site also runs transportation awareness events and Bike to Work days as well as facilitating employee volunteering efforts such as the car-pool sharing database. In 2006, a shuttle bus to the local public transport hub was set up.

In 2007, an Earth Day took place, which introduced eco-friendly energy systems (solar, wind power) to interested employees, as well as show potential for energy saving and water conserving measurements. Under the 'Reduce your use initiative', employees received training in November and December 2007 about using computers and office equipment in an energy-efficient way.

OUR OWN RETAIL BUSINESS

Our multi-brand strategy allows us to reach the consumer in many different ways. These include own retail activities which individual brands undertake in line with their specific business strategies and regional market conditions.

For the adidas brand, own retail consists of four major components: concept stores, factory outlets, internet sales and concession corners in Asian markets. Concept stores

market Sport Performance and/or Sport Style products directly to consumers in a stand-alone retail environment. They provide us with high visibility in major metropolitan locations, as well as growth opportunities in Eastern Europe and Asia where less retail infrastructure is available. Many of the retail stores are operated by franchise companies.

To better understand the environmental impact of retail stores, an external energy consultant was engaged in July 2007 to conduct on-site energy audits of two Group-owned retail stores in China – in Hong Kong and Shanghai. China is currently the country with the largest number of adidas retail shops.

The objectives of these audits were to:

- Assess the energy efficiencies/deficiencies in these facilities
- Identify areas of improvement to inform future renovations/retail store design plans.

The following key aspects were audited in relation to energy:

- Engineering systems (air conditioning mechanical ventilation systems, general ventilation)
- Electrical installations (lighting – both retail and non-retail areas).

Several energy management opportunities were identified from the observations and findings of the audits. These findings were shared with senior management and relevant business units as part of our ongoing commitment to continuous improvement. Upon completion of the audit, action was immediately taken by colleagues in the retail business unit to address some of the findings. In the case of other findings, relevant business units have been asked to address these in future designs for the retail outlets.

IMPROVING DESIGN AND MATERIALS

The company's approach is to seek to design out polluting materials and processes and increasingly to adopt sustainable materials instead. The adidas Group has various initiatives in place that help to achieve its goal of improving materials.

MATERIAL SELECTION POLICY

The company does 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 its red list. The policy also prohibits using leathers from animals that have been inhumanely treated, whether these animals are wild or farmed.

The adidas Group clearly does not tolerate animal testing for new product or material developments. And, where necessary, we ask for written confirmations from our licensees, in particular for the cosmetics business, that they strictly adhere to our requirements.

However, we have to accept the fact that there are rare occurrences when a government or regulatory agency indicates that an animal study is necessary in order to ensure consumer protection for a component of our products and where no validated alternative exists. In these cases, the need for testing is carefully examined by licensees and, if the test must be performed, it is strictly controlled. Licensees' research and development teams have pioneered safety tests and alternative testing methods in order to eliminate the need for animal testing.

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 to ensure that our products are environmentally safe.

In 2007 we reviewed and further updated our standards and policies on restricted substances – the 'A-01 Requirements' – to make sure they were unified, and we were consistently executing them to the highest standard. The policy was communicated and implemented within the major adidas Group entities and product divisions.

Materials supplied to the adidas Group must meet the strictest local standards globally. We require our suppliers 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 retailers' standards, customer expectations and standards 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. Materials that fail to meet the standards and specifications are rejected and are not used in the products.

In 2007, new high-concern chemicals identified by scientific institutes were included in the policy, as well as necessary procedures regarding test methods, threshold limit values and pre-treatments.

Besides regular policy updates we consulted with external experts and scientists about new legal requirements, requests from consumer groups or critical materials. These consultations resulted in a complete re-design of our policy format. The new format now more effectively serves as a Group policy to all corporate entities, but also provides easier access and guidance to key information for users such as factories and material suppliers. It has also been built into a more user-friendly format that facilitates updates or revisions.

In 2007, we saw a smooth adoption of the standards across major Group entities. The A-01 policy on restricted substances was rolled out to almost 20 business units including licensees and agents. In 2008, we are targeting to roll out the A-01 policy to all business units.

The full text of our policy on monitoring and controlling of restricted substances is posted on our corporate website at www.adidas-Group.com/sustainability

REACH LEGISLATION

We have been carefully observing EU legislation related to chemicals called REACH (Registration, Evaluation and Authorisation 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. To better understand the future implications of REACH for our business processes and to express our views, we closely interacted with other brands, the Foreign Trade Association and EU governmental officials.

While the REACH legislation in its basic structure was approved by the European Commission in 2007, important parts of the directive, technical guidelines, implementation procedures and lists of chemicals have not yet been finalised, or have been withdrawn for further reviews by EU officials. We will continue to carefully monitor developments so we are able to comply.

By carefully monitoring the Commission's activities and further clarifications of the REACH requirements, affected product categories underwent further screening and analysis in 2007. Along with our stringent observation of developments, we have established an internal reporting process to keep senior management and material suppliers regularly informed about the status of REACH requirements.

ELIMINATING PVC

In 2000, we were one of the first companies in the global consumer goods sector to decide to eliminate PVC from our products.

Alternatives have been found and introduced for most uses. Nearly all styles of our global product range are PVC-free. However, in a few countries, alternatives are not available so some local production of athletic footwear products still uses PVC.

During 2006, as a result of the integration process, the Group's policy to eliminate PVC was rolled out to the new Group entities, where no such programme existed.

In 2007 we specifically analysed those product categories where we still see significant technical challenges in removing PVC ingredients from certain product styles, for example in the continued use of plastisole high-solid prints on tee-shirts. Since this is an industry-wide challenge and there is no technically viable option available to date, we developed a three-year plan to work with ink suppliers and factories on technical solutions that will also meet our quality standards.

And we continue to engage with material scientists to understand the environmental impact of other chlorine-based materials that are widely used in the industry as PVC replacements.

BETTER COTTON

The Group's goal is to secure more sustainable cotton sources, but based on feedback from several stakeholder dialogues the company recognises that the use of certified organic cotton is not without challenges. In particular, we learnt that certified organic cotton does not address the most critical environmental impact of cotton farming – excessive water consumption.

Supported by international companies and NGOs, our approach is to tackle the most serious environmental challenges of cotton farming by providing training and capacity building to farmers in sustainable cotton farming methods without causing big price premiums.

The adidas Group has become a founding member of the Better Cotton Initiative (BCI) that seeks to train cotton farmers to adopt a more sustainable approach to farming. This is consistent with the company's general approach to build capacity in its supply chain. Together with other brands, NGOs and environmental organisations, the adidas Group has 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 preparing a review of 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 gather as many buyers

behind this concept as possible and so create a critical mass demanding better cotton.

In 2006, consultations with regional organisations and local agricultural institutions started in India and Pakistan, as we set up the training and checking for the field-testing phase.

A full-time project manager was hired on behalf of the BCI Steering Board to support the project's development. Extended stakeholder outreach to various interest groups took place, on the governmental and official side, as well as to the NGO community.

2007 developments

After carefully reviewing the BCI programme, the National Environmental Agencies of Sweden (SIDA) and Switzerland (SECO) declared their interest in supporting the programme. The agencies acknowledge its unique approach, which is complementary to other existing organic cotton or fair trade programmes.

While we wait for BCI cotton to come on stream, organic cotton was used in several adidas product ranges in 2007. These include training, kids and outdoor product lines as well as some of the fashion-oriented lines from adidas Sport Style.

RECYCLED MATERIALS

In several pilot projects, research and development teams experimented with recycling waste to make new upper, outsole and insole materials for sports shoes. To meet high quality and performance standards, different mixes of new and recycled materials were tried and feedback from customers was considered.

Although recycled materials cannot always replace new materials in performance products, they are increasingly used in the specific product ranges such as adidas Grün, which was launched in spring 2008.

Read more about adidas Grün later in this report.

PRODUCT SAFETY

To ensure product quality and consumer-safe products, all materials and product samples have to pass a rigid compliance process and are tested in accordance with standardised material and product testing specifications and procedures.

The adidas Group function 'Product Safety and Environmental Services' was expanded to further strengthen the internal infrastructure and ensure the consistent application of physical, chemical product safety and conformity standards across all brands of the adidas Group. This step was taken to roll out Group-wide product safety policies, to increase product checks and to engage more closely with the product teams on product safety issues.

2007 ACTIVITIES

This year product safety and product quality teams of the adidas Group and its brands focused their efforts in detailing safety policies and procedures for non-core products such as 'gifts with purchase' or promotional items. Policies were rolled out to all business entities that source these types of products.

Furthermore, special attention was given to Group entities and licensees who source and market kids products. In particular, Reebok kids' licensees have been required to submit comprehensive plans that document their actions to ensure compliance with mandatory safety standards.

We intensified our engagement with internationally-recognised standard bodies, testing houses and consultancies on best practice standards, third-party testing and verification mechanisms.

PRODUCT RECALLS

The adidas Group faces a risk of selling defective products, which may result in injury to consumers and/or image impairment. We mitigate this risk through rigorous testing prior to production, close cooperation with suppliers throughout the manufacturing process, random testing after retail delivery, open communication about defective products and quick settlement of product liability claims when necessary.

In 2007, approximately 3,400 FSMK hockey masks which were delivered to retail in Canada, Europe and the USA, were subsequently recalled voluntarily due to a quality issue. The issue arose during subsequent random testing of products in inventory. During these random tests, a hockey puck was aimed at full speed directly at the face masks. Many of the masks dented and the coating chipped slightly. No incidents or injuries were reported before or after the recall.

Also in 2007, the US Consumer Product Safety Commission, in cooperation with Icon Health & Fitness Inc, Utah, a Reebok licensee for fitness equipment, announced a voluntary recall of its Nordic Track and Inversion Benches. The reason for the recall was that the ankle clamp mechanism could release unexpectedly, posing a fall hazard to consumers.

Our assessment of product quality risk remains unchanged versus the prior year. We regard the likelihood of significant product liability cases or having to conduct wide-scale product recalls as low. As we have insurance protecting us against the financial consequences of significant product liability cases, we also assess the financial impact as low.

TACKLING POLLUTION IN THE SUPPLY CHAIN

We have limited control over the direct environmental impacts of the manufacturing process and how our suppliers act. The best way we can influence the environmental impacts at our suppliers' factories is to encourage the introduction of environmental management systems, and we have made implementing an environmental management

system mandatory for all our core suppliers. Achieving certification to a management system requires factory managers to plan, manage and review their own environmental performance. This encourages them to approach the issue with rigour and the appropriate resources. Environmental management systems commit the supplier to continuous improvement.

An overview of suppliers who obtained certification in accordance with OHSAS 18001 and ISO 14001 can be found in the Performance data section.

Support for suppliers

The adidas Group's approach is to help its suppliers reduce the environmental impacts in their factories through advice and support. The company has issued detailed and practical Guidelines on Health, Safety and Environment, which have been complemented by a more specific Guide to Best Environmental Practice. Highlighting best practice both inspires and practically explains how suppliers can improve their performance.

The Guide shows how to address environmental issues in a systematic way and how to obtain economic benefits by taking a pro-active stance in the management of resources, processes and wastes and goes far beyond end-of-pipe solutions.

ADDRESSING ENERGY EFFICIENCY

To better tailor the training programme on environmental issues the adidas Group conducted specific needs assessments among its suppliers. These sought to understand their environmental priorities, which can differ significantly from site to site, depending on product complexity and production processes. Many reported that energy consumption was one of their main concerns. The drastic increase in oil prices has affected energy costs and the high demand for energy has resulted in power shortages in factories in China, where several of the suppliers' factories are located.

Accordingly, the adidas Group conducted a series of supplier energy efficiency workshops. With the help of an environmental consultancy, we developed customised training materials and technical recommendations across the different product divisions.

In 2007, Vietnam and South China were chosen as the countries to kick off the series of energy workshops. More than 100 core suppliers attended these training workshops. The workshops, which were run under the theme 'Energy Efficiency – Advantage for Environment and Industry', stressed the significant economic potential for industry and business and the tangible benefits to the environment. In-depth training was given on various aspects of energy management and contained a wide range of improvement suggestions for factory managers and their facilities. Another important topic was how to stay competitive and safeguard production performance while at the same time reduce pollution and its impact on global warming.

ENVIRONMENTAL INDICATORS

A detailed set of indicators has been developed and established, mainly in our athletic footwear suppliers' factories, to measure, track and analyse the environmental impact of footwear operations. These metrics enable the adidas Group to calculate the average consumption of key resources per pair of sports shoes produced by its key footwear suppliers in Asia. These suppliers account for more than 95% of adidas footwear production. The calculation of the average data is based on a very detailed data reporting framework, which was introduced in 2004.

In 2007, all Group athletic footwear factories became part of the reporting scheme. An ongoing review and feedback process improved the general quality of the data. However, factories new to the indicators recorded data with less accuracy than those that have already been working with the indicators for a few years. In 2007 we saw a slight increase in the average consumption of key resources per pair of shoes since Reebok footwear factories joined the system and they have yet to improve environmental efficiencies.

Average resource consumption/pair of sports shoes

	2007	2006	2005
Energy use (KWh/pair)	2.93	2.36	2.93
Waste water (m ³ /pair)	0.034	0.045	0.057
Average VOC (g/pair)	20.3	19.3	20.5

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

REDUCING VOC EMISSIONS

Since 2000, the adidas Group has been committed to reducing emissions of VOCs in footwear factories in Asia. The target is an average VOC emission 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. The company's footwear suppliers have reduced VOC emissions from 140 grams/pair in 2000 to 20.3 grams/pair in 2007, which includes nearly all new adidas Group footwear factories. These results reflect improved information-sharing between suppliers about technical solutions and alternatives to solvents such as water-based cement systems.

The Group regularly measures actual exposure in the workplace by asking workers to wear monitors during their working day. Emissions measured are far below the threshold limit value. These results suggest workers are not being exposed to dangerous levels of VOCs, but nonetheless the company remains committed to further reductions.

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

WASTE MANAGEMENT

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. Noting the different amounts and sources of waste, as well as the specific local circumstances, the research nonetheless came up with some generally applicable recommendations, which are to:

- Further enhance the system for measuring 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.

One example of how the adidas Group has been looking into ways to reduce, and finally eliminate, the practice of using waste for landfills is described in the case study on waste co-processing in Vietnam.

CO₂ EMISSIONS FROM TRANSPORT

The fuel used to transport goods to market creates carbon dioxide emissions, a major contributor to climate change. The adidas Group works each year to reduce the environmental impact of transporting our products around the world. Our policy is to minimise the impacts from transport, in particular minimising air freight shipments.

Carbon dioxide emissions are measured in grams of carbon dioxide per kilometre each tonne travels (grams CO₂/km t):

- Sea freight contributes 17.5 grams carbon dioxide CO₂/km t
- Road freight by truck contributes 147 grams CO₂/km t
- Air freight contributes 903 grams CO₂/km t.

To reduce the environmental impact of our transport operations, we typically ship most of our cargo by sea. Only in emergencies, or in times of high market demand, for example during global sporting events, do we choose to air freight our products. Generally, we aim to limit the use of air freight through improved order and production planning tools.

See the Performance data section for the full breakdown of percentages of freight types used to ship adidas products.

Driving CSR down the shipping supply chain

Due to the fact that the adidas Group works with third parties, rather than our own transport fleet, it is difficult for us to measure the resulting vehicle emissions (truck, ship and plane) from transporting our products.

To reduce our environmental impact, our transport and logistics department has developed environmental benchmarks for carriers and forwarders that help us evaluate their environmental performance. Both environmental and wider CSR performance have been included in the 2008 tender for our next carriers and forwarders, and they will influence the decision-making process. Service suppliers have been asked to provide information about the following three areas:

- Details of an ISO 14001 certification and information about an environmental policy
- Details and information about the supplier's current five most important CSR activities
- Details and information about a supplier's CSR strategy.

The objective was to gain a clear overview of the CSR capabilities of our current and potential new service partners and to determine whether they meet our requirements for partnering with the adidas Group.

Next steps

In 2008, we will make in-depth analyses of the profiles of potential partners and will continue to detail the environmental benchmarks for our service partners.

Impact of global travel

As a global business with more than 150 locations worldwide and a global supplier base, air travel is widely used by adidas Group employees.

To obtain a better understanding about the environmental footprint caused by air travelling, the air travel managed through our in-house travel agency has been recorded. In 2007, about 72 million air miles were travelled by adidas Group employees. This amount of travel caused around 23,500 metric tonnes of carbon dioxide.

While air travel cannot be avoided, the company is developing and expanding technical solutions such as video-conference facilities to further reduce the need for air travel.

FOCUS 2007: ENVIRONMENTALLY OPTIMISED PRODUCT RANGE – ADIDAS ORIGINALS COLLECTION: ADIDAS GRÜN

In 2007 the adidas Group developed an environmentally optimised product concept, the adidas Grün ('green') range, which was launched in spring 2008.

What is the adidas Grün collection about?

adidas Grün is a collection of footwear and apparel for men and women that minimises its environmental impact by being as efficient as possible with the use of the natural resources involved in its production and packaging. It was created in response to increasing consumer awareness of the importance of sustainability.

adidas Grün is distinguished from other 'eco' collections by its clear labelling system that explains the environmental credentials of each part of the collection.

Development challenges

The adidas Grün concept challenged our development teams to review previous construction and design principles and align them with environmentally friendly approaches. Material selection and product manufacturing were also influenced by what we learnt over the three years of our research project on 'Integrated product policy' (IPP).

The IPP approach was an extensive pilot project, involving both internal and external experts, aimed at continuously improving the environmental footprint of a footwear product throughout its lifecycle. All stages of the lifecycle were reviewed: from inception through construction, raw material selection, production, transportation, sales and usage to disposal.

It became clear that close cooperation and communication between the parties involved in all stages of the product lifecycle was fundamental to the success of the initiative.

This improved information flow helped to identify potential areas of improvement at each stage of production and value creation.

Creating adidas Grün

The adidas Grün project was developed by a cross-functional team drawn from across the business as well as external material suppliers and manufacturing partners.

Together they faced the challenges of selecting environmentally acceptable material solutions that would meet both quality standards and consumer expectations. The final product lines include recycled fabrics and natural materials such as hemp, bamboo and cork.

The products all contain clear labelling explaining the environmental credentials of the materials and processes used in the product's manufacture. And the products are all sold in 100% recycled cardboard packaging.

Marketing the range

adidas Grün updates traditional adidas silhouettes with a new, natural look and feel. Aesthetically, the earthy colour palette, teamed with Originals styling, strikes a balance between streetwear and environmental sensibilities.

The adidas Grün range consists of three product categories:

The **Reground** line of products is made of environmentally friendly materials such as hemp, jute, bamboo, crepe rubber, chrome-free leather and recycled rice husks. A highlight from the women's collection is a shirt made from a mix of soybean and organic cotton fabric that features a neckline inlaid with sunflower seeds.

The **Recycled** line consists of summery apparel and footwear made from recycled and reused materials. Key pieces include a dress made from recycled cotton scraps and a hooded track top that uses recycled polyester.

The **Made From** line presents original adidas silhouettes made from environmentally friendly fibres in more colourful tones.

Next steps

What we learnt about material selection in this project has been captured so that other adidas Group teams can apply it to their product ranges. And given that there seems to be a growing appetite for environmentally friendly products, we expect to be applying the lessons learned in developing the Grün range to other products in the near future.

FOCUS 2007: WASTE CO-PROCESSING IN VIETNAM

With the rapid industrialisation and population growth in Vietnam, each year the country produces more than 15 million tonnes of waste. The lack of controlling and monitoring systems, of waste treatment technology and capital resources make the need for effective waste management solutions more important than ever.

Managing waste today

One of the country's most popular waste disposal methods is incineration. However, handling the daily waste is becoming more and more of a problem as the technology of incineration plants is very basic and therefore insufficient. In spite of these plants being assessed by the government for technical standards and gas emissions, Vietnam still lacks the technology to analyse dioxin and other pollutant concentrations. Waste collectors are not sufficiently monitored or tracked, and their backyard facilities have adopted insufficient waste treatment methods. This poses a serious threat to people and the environment as ground and surface water is often contaminated from this untreated waste.

Consequently, efficient waste management is one of the biggest social and environmental challenges. One proven alternative and possible solution on the way to a 'zero waste society' in Vietnam is the so-called 'Co-processing' technology with the help of which waste is converted into cement.

How co-processing works

In November 2005, the SEA team invited all the adidas footwear factories to visit the HOLCIM Co-processing plant in Rach Gia, a province in the south of the country, to introduce this technology to them. The co-processing technology uses waste materials as raw material, which lowers the quantities of other natural resources used, and also to recover energy. Co-processing means that waste is collected and checked, packed and shipped to the HOLCIM plant where it is shredded and then melted down in special kilns. The plant uses high-tech equipment, and waste co-processing takes place in a strictly controlled environment. The factories now know

what happens to their non-recyclable wastes from footwear manufacturing, and materials can be traced throughout the production cycle.

Benefits of co-processing

The process of using the waste in these cement kilns is seen as very environmentally sound, because:

- There is no further ash, all material remains inert in the clinker
- It is a high-temperature process
- It is a self-cleaning process, oxidising in an alkaline environment
- There is a full set of state-of-the-art monitoring and process control equipment
- It allows for full traceability of the waste flow, which is not available from local waste collectors and service providers.

Changing waste management

In 2006, 622.3 tonnes (more than 34% of the entire volume of the participating factories' waste) was used for co-processing, and so will be diverted from low-level incinerators or landfill, the most common waste management methods in Vietnam.

In 2007, 711.1 tonnes of waste were co-processed. Further extension of the system was limited by a new approach taken by the local authorities, who authorised one specific waste collector to cover each region. So not all planned project partners could send their waste to HOLCIM.

Nonetheless, the adidas Group is keen to promote sound waste management solutions and extend the programme to more adidas Group suppliers in the country. For the adidas Group in Vietnam, this remains a great opportunity to set a benchmark for waste management in our industry.

Where our suppliers also make products for other brands, the team will reach out to them to join the existing co-processing system. Moving forward, we will also continue to promote this project to cover the Group's apparel and accessories factories in Vietnam, either by joining the existing project, or by looking for similar approaches in other parts of the country.

WORKING WITH THE COMMUNITY



Our community affairs programmes are as diverse as the different countries where we operate. In this section we outline our approach to working with the community and explain how we manage community affairs. We describe our Group initiatives as well as the key initiatives of our brands adidas, Reebok and TaylorMade.

OUR APPROACH

In managing our community affairs programme, the adidas Group has adopted a largely decentralised and brand-oriented model for community involvement practices, recognising that people in our subsidiaries and Group entities best understand the needs and cultural sensitivities of their local communities.

PILLARS OF THE PROGRAMME

The adidas Group community affairs programme is built on three complementary pillars: community involvement, employee involvement and corporate giving.

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 while achieving business objectives.

Relief efforts

We respond to natural disasters around the globe, for example the flooding in Indonesia and India, Hurricane Katrina in the US and the earthquake victims in Peru.

Employee involvement

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

Corporate giving

Donations at the adidas Group can take the form of financial contributions, product contributions, know-how and services.

In each community, the specific design of these three pillars is determined by local cultural, economic and social factors. The nature of our business – sports – provides us with a unique platform to address the key concerns of the communities in which we do business.

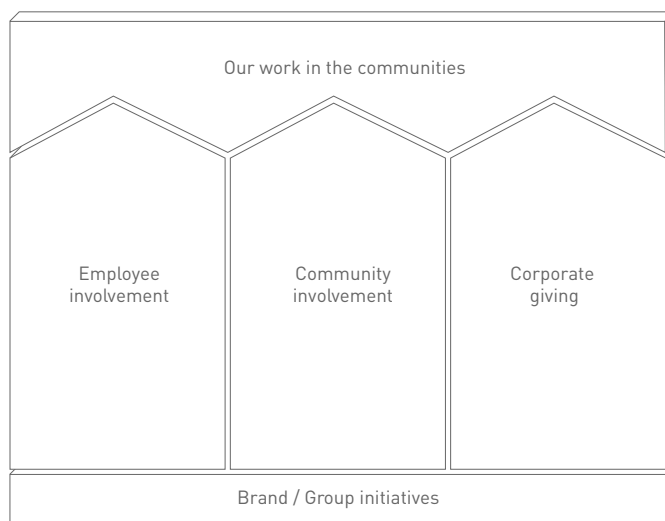
BRAND PROGRAMMES

Initiatives that derive from the brand's individual identities may vary in form, but are all aimed at supporting children and young adults.

GROUP ACTIVITIES

At Group level we engage with the local community at the adidas HQ and fund good causes around the world. We also support our suppliers' communities, as well as make contributions to organisations that promote sustainable development practices within the industry.

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



MANAGING COMMUNITY AFFAIRS

The community affairs function at the Group's Headquarters is part of the Social and Environmental Affairs Team and responsible for developing a direction and strategy for corporate giving and other community involvement practices.

Community affairs works with a network of people from adidas Group entities around the world who are driving social improvements in their local communities.

We provide support and assistance to them, in particular in the selection and execution of projects. Another key task is the development and management of comprehensive reporting mechanisms so we can form a clear view of activities at the local level, and better analyse and report on them.

While we have enhanced the quality and comprehensiveness of our reporting about our global community affairs practices in recent years, we see further potential improvements in detailing our reporting practices. This will again be in the focus of our work in 2008.

In 2007, we reviewed our community affairs strategy. We increased the emphasis on our brand-oriented model while also laying the groundwork to further build on existing community and social programmes in the countries where our suppliers are based.

GROUP INITIATIVES

We support our suppliers' communities with projects that apply solutions in a local context to address global problems such as health issues or education.

We also run programmes that involve our employees in making a difference to local communities around our facilities or in corporate giving projects.

Read about:

- The reproductive health/HIV-AIDS programme with Marie Stopes International in Vietnam and China
- Education and Infrastructure Programme with Sudhaar in Pakistan
- Employee involvement projects
- Corporate giving projects.

REPRODUCTIVE HEALTH/HIV-AIDS PROGRAMME WITH MARIE STOPES INTERNATIONAL IN VIETNAM AND CHINA

The project's beginnings

In 2003, we reported on our developing partnership with the international health care provider 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 was developed.

As a result, in 2005, the implementation phase of the Vietnam programme started, with the establishment of a permanent reproductive health clinic to serve workers and the surrounding communities. Since then, a mobile team has been travelling out from the clinic to the factories to provide a range of services including training factory clinic staff, basic reproductive clinical services, distribution of information and educational materials, and direct training of volunteer workers as peer-group leaders.

The project in 2007

In 2007, both the permanent community clinic and the mobile clinical services have grown in size and reputation. Both are operating to their full capacity, with workers from adidas Group suppliers and members of the general community making full use of the range of services. At the same time, regular meetings have been held with supplier management, government health officials and other local health service providers with the aim of ensuring that the activities continue once the formal project comes to an end in early 2009. This outreach has also increased and improved the rate of cross-referrals between the MSI clinic and other clinics, hospitals and pharmacies in the greater Ho Chi Minh City area.

Looking ahead

In terms of the ongoing sustainability of the project, the permanent clinic shall be completely self-sufficient by the end of 2008. All adidas Group suppliers in Vietnam are now reviewing the critical needs of their workers and those aspects of the programme, such as peer education and mobile services, they wish to continue with into 2009 and beyond. The feedback has been excellent with all key existing suppliers working on tailor-made packages for their facilities and creating a budget line for this. Some suppliers are looking at how to support the establishment of new MSI clinics adjacent to their factories; and MSI has begun to promote the programme and its services to a wider range of suppliers outside the adidas Group. Clinic services, operating times and information will be posted in those new factories and workers will be encouraged to visit the permanent clinic.

Independent evaluation

Lastly, MSI and factory management welcome a third-party evaluation of the programme that will be conducted in the first part of 2008. These results will be fed back into the individual factory plans being made with MSI, as well as being used for an overall review of the partnership between the adidas Group and MSI, as we consider the next steps in this type of community involvement.

MSI China programme

In 2004, the Chinese authorities fully acknowledged the growing impact of HIV/AIDS. Given the growing support for programmes that address the mounting 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 well-being.

From workshop to proposal

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 in China with the highest rate of infection, as well as the opening and development of its new China MSI clinics. A workshop at the adidas Group offices in Guangzhou was held, 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 Centre for Disease Control and Prevention, and experts from the Migrant Labour Research and Service Centre of Zhongshan University and the Guangdong Women's College.

Following the workshop, both MSI and the adidas Group conducted outreach with a number of different organisations to secure 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 hundreds of thousands of workers. There is a possibility that the programme may be pursued under the umbrella of the China Health Alliance, through the efforts of the Global Health Initiative.

We will report back on progress in next year's report.

EDUCATION AND INFRASTRUCTURE PROGRAMME WITH SUDHAAR IN PAKISTAN

For more than 30 years, the adidas Group has sourced footballs from Pakistan.

Sialkot is the centre of the football stitching industry in Pakistan, which has in the past employed under-age workers. To discourage this, an industry-wide initiative – supported by the International Labour Organization, FIFA and UNICEF – resulted in an independent and self-governing committee to monitor the prohibition of child labour.

To address the issues causing child labour – which are poverty, unemployment and a lack of education – standards of education and access to schooling have had to be improved in rural communities in the area. That is what the local NGO Sudhaar has done with its Education and School Infrastructure Programme, which the adidas Group has fully funded since 2002.

The programme's impact

Sudhaar aims to build awareness in society about the value of education and the negative impact of child labour. The organisation 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.

As of 1 September 2007, 19,266 pupils in more than 125 government schools directly benefit 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.

EMPLOYEE INVOLVEMENT PROJECTS

Kids' Sport Fun Day, Germany

Evolving from collaboration between Community Affairs and Human Resources, the apprentices at the adidas Group were, for the second time in 2007, given the opportunity to organise a charitable event.

The aim of this venture was to allow underprivileged children from the region to take part in an exciting sports day at the company's Headquarters and to give the apprentices the opportunity to plan and implement a project by themselves. The Kids' Sport Fun Day will be repeated in 2008.

After the success of the project, Community Affairs and Human Resources are working together closely on a similar event which will be organised by our ReBounce students – a pool of best-in-class interns. This will take place in 2008.

Business@School, Germany

The project business@school, an educational initiative of the Boston Consulting Group (BCG), aims to build bridges between business and schools in different countries. It will help 1,900 students in Germany, Austria, Italy, Singapore and Switzerland to acquire real-life business know-how and key skills.

The adidas Group has partnered with the Boston Consulting Group and the local high school in Herzogenaurach, Germany, to support this project with six 'coaches' – three volunteers from the adidas Group and three BCG consultants.

Facts and methodology Students and teachers benefit equally from business@school. Besides conveying both business facts and methodology, a competition helps students with career planning and gives them the opportunity to practise key skills such as teamwork, presentation and research techniques. Teachers and students alike experience new forms of instruction and learning. Schools can make useful contacts with the adidas Group while gaining an insight into the sporting goods industry.

CORPORATE GIVING PROJECTS

Terre des Hommes' relief efforts in Bihar, India

Around 15 million people in Bihar were displaced by severe floods in 2007 with almost one million people living in relief camps, tents or under nominal shelters such as plastic or canvas roofs.

Food remained a major problem as cooking was not possible and all grain supplies were washed away or rotted in the water. Only meagre provisions from relief measures were available.

Therefore, the adidas Group committed to support the work of Terre des Hommes e.V. and made a significant cash donation to the organisation.

In this catastrophe, medicine, food and shelter continue to be the affected population's most vital needs and the adidas Group's donation was used to provide them.

SOS Children's Village in 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. The adidas Group financed the construction of one family house of the SOS Children's Village in Rustenburg, South Africa.

SOS focuses on supporting children affected by HIV/AIDS through its Social Centres and Children's Villages. The adidas Group helped 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 fastest-growing regions of South Africa. However, rapid growth has its negative side: the number of people in need of help, and especially children, 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. In order to provide a better future to the children in South Africa and address the consequences of HIV/AIDS, the adidas Group has decided to support the family house with its annual ongoing expenses for the next few years.

Save the Children vaccination programme

Building on our relationship with the NGO Save the Children, the adidas Group was able to support the organisation in its effort to vaccinate children worldwide.

Six million children could be saved from death each year through widely available and inexpensive means. Many children from birth to age five die from diseases such as measles, polio or pneumonia, which are no longer a threat in the developed world. The main cause for most of these diseases is simply poverty. Even where medical care is available, the average family often cannot obtain or afford it. Save the Children is distributing a vaccine to protect children from these entirely preventable diseases.

Bolivia is currently the poorest country in South America with two thirds of the population living in poverty. This affects the health and life expectancy of Bolivian children. In order to support the ongoing work of Save the Children, the adidas Group has provided the funds to vaccinate all the children in a school in Bolivia.

Humanitarian aid work

We have developed relationships with selected humanitarian organisations to maximise the impact of our product donations. In 2007, around 900,000 units of product were donated to good causes.

Our most important partners in this area are the Global Aid Network, 'Goldene Lilien Mission' and 'Luftfahrt ohne Grenzen e.V.' (the Aviation without borders association). With the help of these organisations, several humanitarian aid convoys have delivered supplies that include adidas Group products over the past two years.

ADIDAS INITIATIVES

adidas brand initiatives are either supported by the Adi Dassler Fund or are local programmes managed by our country offices.

Adi Dassler Fund programmes

- Right to Play
- PeacePlayers International
- Coaching for Hope, Burkina Faso
- Diambars Institute, Senegal

Local programmes

- Various youth education and sports initiatives, USA
- Terry Fox cause-related marketing project, Canada
- Special Olympics, Japan
- Good Neighbors International, Korea

ADI DASSLER FUND PROGRAMMES

The Adi Dassler Fund supports organisations that connect children with coaches and programmes to teach life values in addition to sport. These organisations use sport to teach self-confidence, respect and teamwork that can break down barriers and allow people to live healthier, happier lives. The Fund receives assistance from the adidas Brand and its employees around the world.

Right To Play

Right To Play uses specially-designed sport and play programmes to improve health, build life skills and foster peace for children and communities affected by war, poverty and disease. Working in both the humanitarian and development contexts, Right To Play has projects in more than 20 countries in Africa, Asia and the Middle East.

Right To Play is the only global-scale implementer of Sport for Development and Peace programmes and takes an active role in driving research and policy development in this area.

Right To Play focuses on four strategic programme areas:

- Basic education and child development
- Health promotion and disease prevention
- Conflict resolution and peace education
- Community development and participation.

Working with partners, funders and local communities, Right To Play tailors every programme to meet identified needs.

The principles of the Convention on the Rights of the Child underpin everything Right To Play does. The organisation ensures that our programmes benefit the most marginalised children, including street children, former child combatants, refugees and children affected by HIV and AIDS.

The Adi Dassler Fund, adidas and Right To Play conceived the 'Red Ball Campaign' in 2007. There were two primary objectives. The first was to provide products and financial support to Right To Play programmes around the world. The second was to raise awareness for the Right To Play cause, illustrating the power that sports can have on changing the lives of children.

To accomplish this, adidas supplied 100,000 full-size footballs for Right To Play to use in its programmes around the world; it also had a retail campaign in adidas own retail and factory outlet stores (more than 400 locations around the world). The campaign featured Right To Play and its programmes in the prime locations where adidas stores are located, such as Oxford Street in London. The product sold was a red mini-football, and all proceeds from sales of the ball were donated to Right To Play. Events where Right To Play and adidas partners could be combined, such as at a media event in Athens with footballer Zinedine Zidane, also heightened the awareness for Right To Play's cause and programmes. The plan is to run this campaign for one month a year in each of the next four years.

PeacePlayers International

PeacePlayers International (PPI) is a global organisation that uses sport to unite and educate young people in divided communities.

PPI believes that, 'children who play together can learn to live together'. Its current programmes in Northern Ireland, South Africa, Cyprus and the Middle East bring together thousands of children to form positive relationships, develop leadership skills and improve their futures. Over the past six years, the organisation has worked with more than 45,000 children. PeacePlayers International is led by a global network of youth leaders who work together as coaches, mentors and facilitators.

The Adi Dassler Fund supports PeacePlayers in its Middle East project with financial and product donations. This helps to provide:

- Twinned Basketball Clubs, a network that includes groups from Israeli Jewish, Israeli Arab and Palestinian children under the guidance of a diverse group of coaches
- A Leadership Development Programme, which equips youths from all factions with skills needed to make a positive difference in their communities
- Grass Roots Hoops, West Bank, which works to build capacity and infrastructure in underprivileged areas, along with weekly practice sessions for at-risk children
- BasketPal Camps, where mixed teams compete in basketball and take part in team building and peace education workshops.

As well as supporting these programmes in the Middle East, the Adi Dassler Fund worked closely with PeacePlayers on a new project in New Orleans. PeacePlayers was sent to assess the need for youth development and sports programmes in a post-Hurricane Katrina area. The overwhelming area of need to be addressed was literacy. The goal for the first year of implementation is to have 2,000 participants in PPI programmes in the area.

Coaching for Hope, Burkina Faso

Coaching for Hope uses football to empower disadvantaged young people in the developing world and help make them aware of the dangers of HIV/AIDS. This is done by training local coaches and educators to provide football and HIV/AIDS education to vulnerable children in their communities. The local educators take part in intensive courses where they receive training in HIV/AIDS education as well as expert coaching tuition from UK Championship and Premiership football coaches. Once the schools finish they receive ongoing top-up training and support from UK coaches and Coaching for Hope field staff to help them put what they learned into practice. Over time the local educators are trained to run their own Coaching for Hope schools.

Coaching for Hope currently runs programmes in West Africa and South Africa.

adidas started its partnership with Coaching for Hope's programme in Burkina Faso in 2007. During the course of the year various fundraising events were held, involving employees, but also customers and adidas athletes. More than 120 employees from the UK, Benelux and Ireland participated in a fundraising football tournament; over 170 attended a fundraising celebration in Stockport, Greater Manchester. The funds raised were used to support Coaching for Hope in their work in Burkina Faso as well as the Association Managre Nooma for the Protection of Orphans (AMPO) orphanage in Ouagadougou. Employees also support Coaching for Hope through in-kind donations of items such as shoes and clothes.

Diambars Institute, Senegal

Founded in 2003 by professional footballers Jimmy Adjovi-Boco, Saer Seck, Bernard Lama and Patrick Vieira, the Diambars Institute offers promising young players a fulfilling environment where education, football training and life skills come together in a unique learning experience.

Diambars is an educational platform not only for training high-level footballers, but also individuals, role models, conscious of the responsibility they have in society.

adidas France has supported Diambars financially since 2003 and has committed to do so until 2010. A strong relationship has evolved between the Diambars children and adidas France employees. They correspond throughout the year, and during their annual summer trip to France, Diambars children spend a couple of days at employees' homes.

LOCAL PROGRAMMES

Various youth education and sports initiatives, USA

Helping young people reach their potential is at the core of our US community affairs activities. Our education and sports initiatives provide opportunities to youth who are disadvantaged or who face challenging circumstances.

Examples of how we achieve this goal:

- The adidas Earn Your Stripes Scholarship Program provides financial awards to graduating high school seniors who demonstrate achievement in community service, academics and athletics.
- In partnership with local non-profit Schoolhouse Supplies, adidas provides backpacks and school supplies to underprivileged students. adidas employees donate supplies and help to fill and deliver the packs at the start of the school year.
- In summer 2007 adidas held the first adidas Sports Camp at the adidas North America HQ in Portland. Together with Portland Public Schools, we reached out to local children who otherwise would not have the opportunity to attend this kind of sports camp. During the week-long football and basketball camp, employee volunteers and community coaches taught sport skills and values such as teamwork, commitment, and self-confidence. The success of this year's camp will become the foundation for the development of an expanded sports programme with Portland Public Schools planned for 2008.
- In 2007, wildfires ravaged communities in Southern California destroying the homes, property and lives of thousands of families. Through a partnership with the non-profit Soles4Souls and humanitarian aid organisation Assist International, adidas donated apparel products to help those affected by the fires.

We continuously evaluate how best to address the needs of the community and to develop programmes and initiatives that can make a difference. Our employees recognise the importance of helping with issues in their community and play a major part in making our programmes successful by giving their time, financial contributions and other donations.

Terry Fox cause-related marketing project, Canada

adidas Canada and the Terry Fox Foundation partnered to introduce the iconic indigo blue shoe, the adidas Orion TF. All profits are donated to the Terry Fox Foundation.

Terry Fox was a young Canadian who lost a leg to cancer. He set out to raise money for cancer research by running across Canada, calling his journey the 'Marathon of Hope'. During his run, Fox wore his favourite running shoe, the 1979 adidas Orion, which adidas provided him with in 1980. Having completed more than 3,000 miles, Fox was forced to quit after 143 days of running when his cancer returned. However, along the way he raised millions of dollars and 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. This is the first time the Terry Fox Foundation has partnered with a corporate organisation.

On an annual basis, adidas Canada will explore with the Terry Fox Foundation initiatives that:

- Raise awareness for the Terry Fox Foundation
- Increase participation in the annual run
- Raise funds for the Foundation.

Special Olympics, 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 that the Special Olympics conveys adidas' values of passion, authenticity and honesty in sport. adidas feels that funding money is important, but the volunteer spirit of adidas staff is even more crucial for successful community programmes. Therefore, since 2005, adidas employees have supported the event through volunteering activities.

In 2007, 23 employees volunteered for two days each at the event itself. Our support also included product supply and publicity activities within adidas Japan.

Good Neighbors International, Korea

Good Neighbors International (GNI) is an international humanitarian and development organisation from Korea. Formed in 1991, it became the first international NGO in Korea to receive General Consultative Status, the highest status level, with the United Nations Economic and Social Council.

GNI focuses on helping children and youth suffering from poverty and discrimination and runs 60 welfare facilities in Korea.

Having taken the Children's Day as inspiration, adidas Korea donated footballs to the GNI welfare facilities.

Around 2,000 underprivileged children in the welfare facilities started to play football after receiving adidas balls. This contributed to the children's physical strength and the development of a team spirit among the children.

REEBOK INITIATIVES

Reebok believes that a strong and consistent presence in communities around the world is an imperative. Reebok is committed to supporting community and philanthropic programmes that make a positive difference in the lives of youth and the underserved.

Key Reebok projects are:

- Community relations
- Reebok 4 Real
- Reach
- Community Relations Reebok Recognition Program
- The Reebok Foundation
- Peace Games, Inc.
- Bridge Over Troubled Waters

COMMUNITY RELATIONS

In 2007, Reebok introduced its Global Corporate Citizenship platform, a series of programmes designed to support underserved communities and groups and provide underprivileged youth around the world with the tools they need to fulfil their potential and lead healthy, happy and active lives. The platform currently consists of Reebok 4 Real, Reach, Community Relations Reebok Recognition Program and The Reebok Foundation.

REEBOK 4 REAL

As the primary pillar of Reebok's Global Corporate Citizenship platform, Reebok 4 Real serves as the catalyst for realising the brand purpose: empowering global youth to fulfil its potential. Although Reebok 4 Real is an evolution of the world-renowned Reebok Human Rights Award programme, it is broader in both its scope and reach. By engaging and activating a network of empowerment – Reebok employees, athletes, artists and retailers – to benefit youth, Reebok strengthens its resolve to be a leading corporate citizen committed to supporting youth around the world.

REACH

Through the Reebok Reach programme, the brand empowers and encourages Reebok employees around the world to become involved and make a positive difference in their communities. Through modest financial Reach grants made available to Reebok's full-time employees for qualified, non-profit organisations, the company invites its employees to 'reach' beyond their own personal means to support a cause that is important to them and their families.

Reebok has established Reach volunteer employee committees in key markets around the world, including the USA, Canada, Mexico, Amsterdam and Hong Kong. In addition to reviewing the grant requests from employees, Reach committee members in the US also coordinate, manage and participate in employee volunteer programmes and fundraising activities in their local communities.

COMMUNITY RELATIONS REEBOK RECOGNITION PROGRAM

This programme acknowledges individuals who make a positive difference in the lives of young people, either through their chosen professions or volunteer activities. Reebok invites groups of individuals who work with youth to visit the Reebok Headquarters during a designated week to shop at the company's corporate store in Canton, Massachusetts at a significant discount.

THE REEBOK FOUNDATION

The Reebok Foundation was formed in 1986 to focus and expand its commitment to socially responsible action. The Foundation has worked with hundreds of non-profit organisations and donated millions of dollars in grants.

The Reebok Foundation focuses its philanthropy in communities where Reebok offices are located. The Foundation promotes social and economic equality by funding non-profit organisations that support underserved groups and help empower youth to fulfil their potential and lead healthy, happy and active lives.

Reebok also encourages its US employees to make charitable contributions through the Foundation's Matching Gift Program which doubles an employee's gift by up to \$1,500 annually.

PEACE GAMES, INC.

The Reebok Foundation continues to support a conflict resolution programme working to prevent violence in the public school systems. Peace Games has launched an effort to help decrease the current surge of violence in Boston, USA. Peace Games empowers children to create their own safe classrooms and communities by forming partnerships with elementary schools, families, young adult volunteers and community partners.

Over the next three years, the Reebok Foundation grant will allow Peace Games to:

- Bring their programmes to 20% of Boston elementary schools

- Reach an additional 300,000 children by training more than 500 educators and youth workers
- Launch a public awareness campaign highlighting the innovative work that young people in Boston are doing.

BRIDGE OVER TROUBLED WATERS

The Reebok Foundation supports Bridge Over Troubled Waters, an organisation that helps abandoned and abused children turn their lives around. The organisation serves thousands of runaways and homeless youth each year, many of whom had been living in homes characterised by violence, abuse and neglect, often the result of alcohol or drug use.

Through counselling, medical and dental care, education, pre-employment programmes, streetwork, family intervention and operating temporary residences, Bridge empowers children to break the cycles of poverty, abuse, and neglect and build secure and independent lives.

TAYLORMADE INITIATIVES

TaylorMade-adidas Golf's (TMaG) community relations strategy aims to promote brand awareness through partnerships with non-profit organisations, while improving the quality of life for the people and the programmes these agencies represent. TMaG supports local charitable organisations that champion youth, golf and those less fortunate in all ages.

Key TMaG projects are:

- Charitable Contributions Program, USA
- Global Sports Alliance, Japan

CHARITABLE CONTRIBUTIONS PROGRAM, USA

TMaG has developed the 'Charitable Contributions Program' to handle the approximately 3,000 donation requests we receive each year.

Along with donating products, the programme offers the sale of TMaG products to qualified charities at a discounted fee. 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 result is a totally self-funding programme designed to create a win-win proposition 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.

GLOBAL SPORTS ALLIANCE, JAPAN

The Global Sports Alliance (GSA) was started in 1999 by sport enthusiasts who wanted to enjoy sport while helping secure a healthy environment for future generations. They created the Ecoflag Movement, a global initiative that uses sport to increase environmental awareness and action.

TMaG held two golf events in collaboration with GSA to raise awareness of nature conservation.

FOCUS 2007: INTERVIEW WITH MARIE STOPES INTERNATIONAL

We interviewed Nguyen Bich Hang, Country Representative of Marie Stopes International Vietnam (MSIVN), who gave us her view of the Reproductive Health / HIV-AIDS project in Vietnam.

WHAT IS THE CLINIC'S DIRECT IMPACT ON THE COMMUNITY?

There are not many health care facilities in Binh Duong, so workers and the general population still have limited access to Family Planning and Reproductive Health services.

With its focus on education and training, clients visiting the MSI Binh Duong clinic receive information about sensitive subjects such as HIV/AIDS. So the clinic's innovative approach is really making a difference.

WHAT FEEDBACK HAVE YOU BEEN RECEIVING FROM THE COMMUNITY?

MSI Binh Duong and MSIVN have sought feedback in different ways. We conducted client exit interviews, mystery shoppers, questionnaires and had a comment box. In order to gain feedback, the MSI Binh Duong clinic manager and MSI Southern Vietnam programme manager spoke to random clients, to peer educators, peers and steering committees of the factories involved.

Most of the community members feel that they are respected, their privacy and confidentiality are safeguarded and they enjoyed receiving services in a friendly and very clean physical environment. Most workers recognise that the pricing policy they are offered at the clinic makes it very accessible.

WHERE DO YOU SEE POTENTIAL FOR IMPROVEMENT WITH RESPECT TO THE COLLABORATION WITH THE ADIDAS GROUP?

MSIVN has enjoyed a great collaboration with the adidas Group so far. The people involved in the project are supportive and dynamic, which makes our work at the factories much easier. MSIVN would like to look at further opportunities with the adidas Group to expand the coverage of our services and activities to locations in Vietnam other than Binh Duong and Ho Chi Minh City.

DO YOU FEEL THE ADIDAS GROUP SUPPORTS THIS PROJECT WITH REAL ENGAGEMENT OR IS IT JUST TO IMPROVE ITS IMAGE?

We have witnessed a strategic approach to corporate responsibility on the part of the adidas Group's project team and a sense of deep empathy to the life and health of the workers in general, not just those who work for adidas Group supplier factories.

WHAT WAS THE LEARNING FOR YOU THROUGH THE COLLABORATION WITH THE ADIDAS GROUP?

We have learnt a lot. We now have a better understanding of how leading companies see their social responsibilities and how powerful it is – for the workforce and the community in general – when they partner with the right civil society partner to tackle important social issues such as health.

WHAT WAS THE IMPACT ON MARIE STOPES' WORK THROUGH THE COLLABORATION?

Marie Stopes International is very proud to have MSIVN as part of the initiative with the adidas Group, working with migrant youths, one of the most vulnerable population groups in Vietnam. As a learning organisation, the experience and lessons learnt from MSIVN have been shared with other partners both inside and outside the MSI Partnership. The initiative between the adidas Group and MSIVN has been recognised by Business for Social Responsibility as the only best practice seen in Vietnam when they visited the programme in early 2006. By working with the adidas Group, MSI/MSIVN has been recognised as a pioneer in partnering with the private sector to bring about social benefits to the community. We have learnt how to work with the private sector, and we understand how powerful the NGO-private sector partnership can be in improving the economic and social welfare of not only the individuals, but also the company involved.

WHAT IS YOUR IDEAL FUTURE SCENARIO WITH THIS PROJECT?

For the factories to have ongoing capacity to disseminate sexual and reproductive health information and services to the workers, right at the factories, in a respectful, non-judgmental manner.

Most of the workers are very young, dynamic and dedicated. Once they see their organisations really care about them, they will take responsibility for their own lives and for the success of their organisations.

OUR EMPLOYEES

Corporate responsibility report • 56



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 engagement of our employees.

In this section we define our HR functions and goals, and our HR programme. We also outline how we ensure worker-management communications through employee involvement in decision-making.

Employees have a responsibility to adhere to the Employee Code of Conduct; and as an employer we have the responsibility to ensure their health and safety. This includes preventive and precautionary measures covered by our Group policies. The way we reward our staff has to be fair and related to our, and their, achievements.

We aim to develop staff with opportunities for career progression, while striving to create a climate that celebrates diversity. And we look after our employees by promoting global mobility, helping staff achieve a healthy work-life balance, and offering 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. Group HR is responsible for:

- HR management of all Group functions and brands
- Recruitment
- Development and training
- Talent and succession management
- Performance management
- Rewards, including reward and mobility management
- Emerging employee programmes and related HR marketing
- Company sports programme and work-life balance initiatives in Germany.

The head of Group HR is the Chief HR Officer, who reports to the CEO.

Group HR has three major strategic pillars that all worldwide initiatives support:

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

As an industry leader, the adidas Group strives to be:

- A champion in leadership and talent management
- A world-class recruiter
- A top ten employer in every key market we operate.

HR PROGRAMME

Our people are critical to our continuing commercial success. With more than 31,000 employees working at more than 150 locations around the world, we need HR strategies that can be implemented globally. The first step is to identify the common challenges we face wherever we operate:

- **Talent management:** identifying, recruiting and retaining the best people and developing career opportunities for them that meet company needs
- **Employee-oriented leadership:** strengthening the alignment of management and employees by improving communication and enhancing employee feedback systems
- **Performance management:** instilling a result-driven management culture that supports two-way performance feedback for continuous learning and improvement
- **Motivation:** providing reward and incentive schemes in a working environment that promotes commitment, engagement and well-being

- **Communication:** increased transparency and efficiency in all our communications.

Rising to these challenges can enhance the adidas Group's business success.

EMPLOYEE INVOLVEMENT

Employee empowerment and participation 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 workforce.

Currently, 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. This so-called 'co-determination' structure is mandatory under German law.

CORPORATE SOCIAL RESPONSIBILITY

Works council representatives participated in various local and international stakeholder meetings as well as in several conferences and seminars where the topic was largely 'Corporate Social Responsibility'. Examples of these meetings are:

- Regional meetings facilitated by Social and Environmental Affairs
- adidas Group stakeholder dialogue in Hong Kong with Group representatives (SEA, Sourcing, Communication) and business partners (suppliers as well as transport and logistics service providers)
- Meeting with representatives of the Hans-Böckler Foundation (affiliated to the German Trade Union Federation) to discuss general CSR-related topics; participants included adidas Group representatives from SEA, Corporate Communications and the Works Council
- Seminar on CSR organised by the Hans-Böckler Foundation; participants included employee representatives of various companies and trade unions
- Conference on CSR organised by the Hans-Böckler Foundation; participants included politicians, academic representatives, journalists, media (TV), employee representatives of various companies and trade unions.

GROUP WORKS COUNCIL GERMANY

This works council represents all our sites in Germany, including our Headquarters in Herzogenaurach.

In 2007, it was actively involved in a range of staff-related projects. Depending on the type and subject, the works

council played a critical role in exercising its development support, feedback, consultation and approval function.

The works council paid special attention to the following initiatives:

- Implementation and alignment of revised remuneration structures and bonus schemes
- Roll-out and implementation of the new Employee Code of Conduct
- Revised Personal Evaluation and Planning (PEP) system rolled out to all employees in 2007
- HR tools for personnel planning and development
- Alignment of relevant HR policies and agreements post Reebok integration.

In 2007, the Executive Management issued a formal note to Line Management to stress the important role and value of staff representatives for the company organisation.

WORKS COUNCIL REEBOK GERMANY

The relocation of the German Reebok Sales Organisation (separate legal entity) from Unterhaching to Herzogenaurach required elections to ensure a full-size works council for this establishment. The elections were held at the end of 2007. Two members of the works council of Reebok Germany are also members of the adidas Group works council.

EUROPEAN WORKS COUNCIL

The European Works Council (EWC) currently consists of nine delegates from six European countries. Germany, as the country with the largest number of employees, has four delegates on the council, including one member from the works council Reebok Germany.

The fruitful collaboration between the European and HQ works council and the SEA team continued in 2007. Members of the HQ works council, the EWC and representatives of the Trade Unions are regularly updated on progress of the compliance programme.

At the annual EWC summit, the main topics discussed were:

- Management updates on sales and staff development in the European region
- Implementation status of global HR tools (Performance/ Compensation System)
- Harmonisation of internal agreements
- The management letter on recognition of staff representatives
- The Employee Code of Conduct.

The European Works Council held elections in March 2007.

EMPLOYEE PARTICIPATION OUTSIDE EUROPE

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 all regions an opportunity to raise concerns and post questions to top management.

More direct communications are being established in the sourcing offices throughout Asia. We are setting up employee committees who regularly meet with management to review staff issues. This initiative was piloted in the Guangzhou LO. Now in its fifth year, the committee has incorporated elected representatives from apparel, accessories and gear as well as the footwear sourcing department.

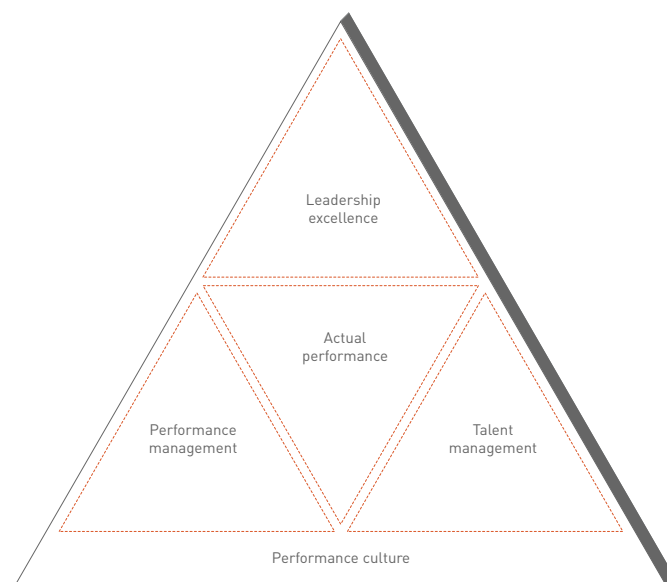
The committee has dealt with a number of issues, including:

- 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
- Conducting sports matches for staff and proposing other activities.

In 2007, the committee held four representative meetings, one of which was without management participation. Ten employees were elected in May 2007 to represent 388 local adidas, Reebok and Rockport employees.

Our Hong Kong office has also set up a staff committee that discusses relevant topics for employees.

DEVELOPING OUR PEOPLE



Core elements of the adidas Group performance culture.

We aim to identify, recruit and retain the best people by providing development and career opportunities on a Group-wide level. We achieve this through our strategic HR pillars that focus on:

- Creating a positive work environment
- Instilling a culture of performance
- And being the employer of choice.

GO FOR GOLD

Just like athletes, employees of the adidas Group need a training plan and a coach to build on their strengths, overcome their own challenges and improve their technique to achieve their goals. We 'Go for Gold' and base our efforts on the three success drivers of our performance culture: '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 such as PEP (Performance Evaluation and Planning) measure an 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, skill training in team development, managing people and objectives as well as coaching and strategic management. 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. 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 in the area of management and leadership
- Individual preparation for new competency requirements
- Fostering of global networking
- Knowledge transfer into the current and future business.

Actively managing internal succession is key to our competitive position.

REMUNERATION

Our Global Salary Management System (GSMS) sets employees' salaries in a clear, understandable and measurable way. It relates to performance evaluation and uses a clearly defined system for setting salaries in line with market requirements and performance levels. Managers and the HR department can evaluate where each employee currently is within the system based on his/her current salary and where he/she should be.

The adidas Group also offers several attractive variable compensation components:

- **Pay for Performance bonus programme/Profit Sharing:** More than 80% of all employees receive a variable salary component with an average of 20% of their remuneration linked directly to individual and/or Group performance.
- **Long-Term Incentive Programmes (LTIP):** These include brand- or business-specific three-year plans for senior managers that are based on the achievement of financial as well as compliance targets.
- **Management Share Option Plan (MSOP):** Beneficiaries of the MSOP (members of the Executive Board and senior management) may exercise stock options granted to them in five tranches since 1999 if at least one of two performance criteria is met.
- **Other benefits:** These include our 401-K Pension Plans in the USA and the Pension Plans for our employees in Germany. In 2007, 1,396 employees participated in the latter, which represents an increase of 20.9% compared to the previous year.

HEALTH AND SAFETY

Everyone has the right to a safe working 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 our Corporate Guidelines for Health, Safety and Environment, which are used by all our administrative offices. In addition, our larger administration facilities and the Group's small number of production sites have comprehensive risk, health, safety and environmental management systems coordinated by local facility management.

The Group's health and safety management also focuses on travel security as well as health, safety and precautionary measures related to communicable diseases such as avian flu and SARS.

Below are some recent health and safety initiatives within the adidas Group:

MAJOR INCIDENT RESPONSE

Our new Group-wide 'major incident response' policy sets out clear definitions, responsibilities, actions and the internal and external communications needed to handle major incidents effectively. Its purpose is to minimise risks towards our employees and our business at any level at any time.

HIV-AIDS POLICY

In 2006 the adidas Group launched a Group-wide HIV-AIDS policy which is available to all employees via the company's intranet site. The policy is based on guidance from the International Labour Organization (ILO) and field testing by the adidas Group liaison office in Thailand. It contains:

- General guidance on HIV-AIDS
- An employee guide
- Guidelines for HR managers on workplace care and support.

ONLINE LEGAL SAFETY TRAINING

Under German labour safety law, our Headquarters in Herzogenaurach must train its employees at least yearly on workplace health hazards and safety measures. Department supervisors are responsible for implementing this training.

The adidas Group intranet now offers online courses on emergency procedures and fire safety measures as well as guidelines for office and monitor ergonomics. Each course takes only 30 minutes, and the programme is very flexible with regards to when and how much of it can be undertaken. Within one month of the launch of the training programme, we had already trained one third of the workforce on legal safety requirements.

PRODUCTION SAFETY TRAINING

Together with the Textile and Clothing Trade Association, 22 senior managers from our Scheinfeld production site and the warehouse in Uffenheim, Germany, were trained on their special responsibilities for safety at work in a one-day workshop. Topics included:

- The legal safety obligations of a supervisor
- How to draft a hazard analysis
- Effective training of production employees.

Practical exercises in small groups completed the workshop.

SAFETY DAY

Every two years, a Safety Day takes place at all German locations. The day is organised by the Labour Safety Committee together with the police, the trade association, the health insurance and local businesses. For this year's Safety Day, we supported the prevention campaign 'Skin Care', and the day's events centred on healthy eating and road safety.

With more and more employees cycling to work, 'Pimp my Bike' was this year's main topic. A bicycle obstacle course was set up so that people could test their cycling skills. The police demonstrated how to deter bike theft, and explained the importance of having safe brakes and proper lights and wearing the right protective equipment.

The day's programme closed with practical examples about the hazards of multi-outlet power strips (common in most office kitchens) and with obligatory fire-fighting drills.

LOOKING AFTER 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 500 international employees from 50 countries
- Between 100 and 150 international assignments at various locations begin annually
- About 450 employees are currently 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. More information about this topic can be found in the Employees section of our corporate website at www.adidas-Group.com/sustainability

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 Bo, and health and wellness courses such as yoga, healthy back, and swimming. Employees in Herzogenaurach, Portland and Canton have access to a company gym.

Our Company Sports department in Herzogenaurach also organises several sports events such as mountain biking, horseback riding, kayaking, skiing and ski tours and biathlon. Special events such as a one-week sports camp for employees' children, trans-alpine mountain bike tours, and the yearly Berlin marathon weekend (with a suitable training programme prior to the event) are also available. In 2007, the Company Sports department offered about 130 courses and more than 30 events which were attended by more than 2,800 participants.

EMPLOYEE CODE OF CONDUCT

We have a Group-wide Employee Code of Conduct in place to help strengthen general governance. The code serves as the cornerstone of ethical and social behaviour in day-to-day operations, and is aligned with the core values of the company.

The code is part of a Global Compliance Programme and is implemented by compliance managers worldwide, with the involvement of the works council.

The code covers key issues such as:

- How to treat business partners and third parties (including conflicts of interest)
- Handling information
- Complaints
- Special rules for dealing with financial matters.

All line managers must ensure compliance with the code. Employees who violate the Code of Conduct while conducting Group business will be subject to disciplinary measures, and may have their employment terminated. All employees are trained to apply the code through a global e-Learning tool which was launched at the end of 2007.

DIVERSITY

Over the years, the adidas Group workforce 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 who 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 among 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 workforce; and to achieve excellence through our products and our people.

While our recruitment is not quota based, we do have gender-balanced recruitment of trainees and apprentices. Over the past three years, the adidas Group has moved its global male/female ratio in management positions from 79/21 to a 70/30 ratio. Our overall male/female ratio globally has remained fairly constant over this period at about 52/48.

FOCUS 2007: EMPLOYEE ENGAGEMENT

A fundamental part of our HR strategy is to create an environment that stimulates team spirit, passion and engagement. Engaging employees is crucial to our success: we know that companies with high employee engagement levels outperform their markets.

We are conducting online engagement surveys so employees can give anonymous feedback to management, be it appreciative or critical. In 2007, we covered Europe and Asia as well as some global Group functions. Although we are on average scoring in the 'Performance sector', we analyse the feedback carefully per country, division and department and work with line management to address areas of improvement.

We also have a web-based scheme – 'Ask the Management' – that allows employees to post questions to senior management. There are six different 'Ask the Management' forums across the Group, with the Global Operations one being the most used, often with 50-60 questions posted each month.

And more of our main locations are hosting 'All-employee meetings', where senior management address topics of interest and answer questions. There were more than ten such meetings organised across all brands, Group functions and regions in 2007.

We encourage employees to use any or all of these channels to voice their concerns, questions or suggestions. The more feedback we receive, the more we are able to improve our practices and be a better employer.

PERFORMANCE DATA

We are committed to being transparent about both our achievements and our shortcomings. Here we present data about our performance during 2007.

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. Details of the training sessions we ran are also included.

The environment data section covers management system certifications obtained by footwear suppliers, water and energy consumption as well as waste accumulation at our own sites, VOC levels in athletic footwear factories and what freight method was used to ship our products.

Key statistics about our employees and community affairs activities complete our presentation of data.

You can see performance data for 2005 and 2006 in the Performance data section of our corporate website at www.adidas-Group.com/sustainability

SUPPLY CHAIN OVERVIEW

NUMBER OF SUPPLIER FACTORIES AND OUR OWN FACTORIES¹

On December 31, 2007, we worked with more than 1,070 independent factories (excluding factories of our licensees) who manufacture our products in 67 countries.

67% of our factories are located in Asia, 17% in the Americas and 16% in Europe and Africa. 24% of all these factories are in China.

	Asia	Americas	EMEA	Total
No. of supplier factories (excluding own factories)	727	179	168	1,074
No. of own factories	2	9	3	14
Total	729	188	171	1,088

¹ Supplier production sites of the adidas Group as of 31 December 2007, excluding licensee factories

NUMBER OF SUPPLIER FACTORIES PER COUNTRY¹

Asia

Country	Total number of factories
Australia	14
Bangladesh	9
Cambodia	8
China	264
Hong Kong	3
India	52
Indonesia	48
Japan	63
Korea	62
Macao	1
Malaysia	10
New Zealand	6
Pakistan	7
Philippines	19
Singapore	4
Sri Lanka	16
Taiwan	30
Thailand	45
Vietnam	66
Total Asia	727

¹ Supplier production sites of the adidas Group as of 31 December 2007, excluding licensee factories and own production sites

EMEA

Country	Total number of factories
Albania	1
Belarus	4
Bosnia and Herzegovina	1
Bulgaria	4
Czech Republic	3
Egypt	3
France	3
Germany	4
Greece	5
Hungary	1
Israel	2
Italy	24
Jordan	1
Latvia	2
Lesotho	1
Lithuania	1
Morocco	1
Poland	4
Portugal	9
Romania	2
Russia	16
Slovakia	1
Slovenia	1
South Africa	17
Spain	18
Swaziland	1
Sweden	4
Switzerland	1
Tunisia	5
Turkey	24
Ukraine	2
United Kingdom	2
Total EMEA	168

Americas

Country	Total number of factories
Argentina	9
Brazil	31
Canada	35
Chile	1
Colombia	3
Costa Rica	2
Dominican Republic	1
Ecuador	1
El Salvador	7
Guatemala	3
Honduras	8
Mexico	18
Peru	4
United States	55
Uruguay	1
Total Americas	179

Global

Region	Total number of factories
Total Asia	727
Total EMEA	168
Total Americas	179
Total Global	1,074

¹ Supplier production sites of the adidas Group as of 31 December 2007, excluding licensee factories and own production sites

ADIDAS GROUP LICENSEES

In 2007, the adidas Group worked with 44 licensees whose suppliers manufactured products in 248 factories in 38 countries.

Product range	Total no. of licensees	Total no. of factories producing for licensees	No. of countries where production is placed
Apparel	20	129	26
Hardware ¹	19	85	12
Footwear	1	2	1
Watches	1	6	3
Glasses	2	18	7
Cosmetics	1	8	6
	44	248 ²	

¹ Accessories and gear

² 44 licensees source products from 248 factories in 38 different countries

AUDITS AND TRAINING

NUMBER OF FACTORY AUDITS/VISITS AND TRAININGS¹

During 2007, 1,007 factory visits involving management and worker interviews, document review, facility inspections and trainings were conducted at different levels in our supply chain. The SEA team conducted 267 training sessions and workshops for suppliers, licensees, workers and adidas Group employees.

	2007	2006	2005
Audits/visits ²	1,007	1,101	916
Trainings	267	173	225

¹ Excluding FLA audits; includes multiple visits in the same factory

² Involving management and worker interviews, document review, facility inspections and trainings on-site

NUMBER OF TRAINING SESSIONS DIVIDED BY REGION AND TYPE¹

In 2007, we continued our intensive efforts to provide training for our suppliers as well as for the SEA team, licensees and employees from the adidas Group.

To build capacity in our supply chain and within the adidas Group, the SEA team conducted 267 training sessions for more than 3,500 participants. Included in this number are 123 group session trainings.

Type and number of training				
Region	Fundamental ²	Performance ³	Sustainability ⁴	Total
Asia	98	58	34	190
Americas	35	1	6	42
EMEA	24	2	9	35
Total	157	61	49	267⁵

¹ Trainings conducted for suppliers, workers, licensees, agents and adidas Group employees; more than 3,500 people participated in these trainings

² Fundamental training covers: introduction to Workplace Standards; FFC training; new factory approval process; operating guidelines

³ Performance training covers: specific labour, health, safety and environmental issues; Initial Assessment training

⁴ Sustainability training covers: KPIs and rating tools; sustainable compliance planning; factory self-assessments

⁵ Including 123 group training sessions, i.e. trainings with participation of more than one supplier

NUMBER OF AUDITS DIVIDED BY REGION AND TYPE

In 2007, the SEA team conducted 728 audits (including external monitoring audits) in more than 350 factories which result in an audit coverage of 33%. In addition to these audits, the SEA team visited suppliers' sites on more than 270 occasions to meet with factory management and discuss specific issues, to follow up project work or conduct training sessions.

Completing a high volume of initial assessments remained a challenge for the SEA team in 2007, particularly in Asia. There was a total of 441 Initial Assessments, resulting in 24% of candidate factories rejected.

In total 191 factories were audited by external monitors in 2007. These were commissioned by adidas Group entities, including licensees with indirect sourcing models.

Initial Assessment¹

Region	SEA Team	External Monitor	Total
Asia	205	147	352
Americas	38	10	48
EMEA	13	28	41
Total	256	185	441

Sustainability Assessment²

Region	SEA Team	External Monitor	Total
Asia	240	2	242
Americas	13	0	13
EMEA	28	4	32
Total	281	6	287

Total

Region	SEA Team	External Monitor	Total
Asia	445	149	594
Americas	51	10	61
EMEA	41	32	73
Total	537	191	728

¹ Every new supplier factory has to pass an Initial Assessment to prove compliance with the Workplace Standards prior to order placement

² Audits conducted in approved supplier factories

INDEPENDENT FLA AUDITS¹

Since joining the FLA, more than 200 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers. In 2007, the adidas Group, including the adidas and Reebok brands, assumed the role of one single FLA participating company. As part of the 2007 obligations, external FLA-accredited independent monitors conducted 12 monitoring audits (2006: 35) and 3 independent external verification visits (2006: 8) at adidas Group supplier factories.

FLA Year	Period	No. of audits ²
4th	Jan – Dec 2005	30
5th	Jan – Dec 2006	43
6th	Jan – Dec 2007	15

¹ As part of the FLA membership; the numbers include Independent External Verification audits

² Including audits conducted at Reebok supplier factories

ENFORCEMENT DATA

NUMBER OF WARNING LETTERS ISSUED TO ADIDAS GROUP SUPPLIERS IN 2007

We issue warning letters when we see an ongoing serious lack of management commitment to improving compliance with our Standards. In 2007, we issued a total of 54 warning letters.

Country	1st Warning	2nd Warning	3rd and final Warning – recommended termination	Total Warning letters
Bangladesh	0	1	0	1
Cambodia	1	0	0	1
China	20	3	4	27
Greece	1	0	0	1
Indonesia	8	2	0	10
Jordan	0	0	1	1
Macao	0	1	0	1
Philippines	0	0	1	1
Thailand	3	0	1	4
Turkey	4	0	0	4
Vietnam	3	0	0	3
Total	40	7	7	54

NUMBER OF BUSINESS RELATIONSHIP TERMINATIONS / REJECTIONS AFTER INITIAL ASSESSMENT DUE TO COMPLIANCE PROBLEMS IN 2007

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 2007 we terminated agreements with four suppliers for compliance reasons.

We also work closely with Global Operations to pre-screen potential new suppliers. In total the SEA team conducted 441 Initial Assessments, with 106 factories rejected, resulting in a 24% rejection rate.

Asia

Country	No. of terminations per country	No. of rejections after IA per country
Cambodia		2
China	3	56
India		8
Indonesia		7
Japan		1
Korea		2
Malaysia		1
Pakistan		3
Sri Lanka		1
Thailand		1
Vietnam		6

Americas

Country	No. of terminations per country	No. of rejections after IA per country
Canada		4
El Salvador		1
Guatemala		1
Honduras		1
Mexico		2

EMEA

Country	No. of terminations per country	No. of rejections after IA per country
Jordan	1	
Albania		1
Egypt		2
South Africa		1
Turkey		3
United Arab Emirates		2

Global

Country	No. of terminations per country	No. of rejections after IA per country
Global	4	106

ENVIRONMENT

ENVIRONMENTAL DATA FOR OUR MAIN ADMINISTRATION OFFICES AND OWN PRODUCTION SITES

The below table illustrates the key environmental data of the adidas Group's main administration offices and own production sites.

Our main administration offices	Energy consumption – electricity (kWh/year)	Energy consumption – heating (kWh/year)	Water consumption (m ³ /year)	Waste (tonnes/year)
HQ of the adidas Group, Herzogenaurach, Germany	13,446,664	9,105,772	28,222	580.1
adidas America Inc., Portland, USA	6,584,900	2,005,016	38,369	n/a
Reebok HQ, Canton, USA	13,841,735	486,913	13,789	602.8
TaylorMade-adidas Golf HQ, Carlsbad, USA ¹	4,809,906	26,211	45,372	604

Our own production sites	Energy consumption – electricity (kWh/year)	Energy consumption – heating (kWh/year)	Water consumption (m ³ /year)	Waste (tonnes/year)
adidas Footwear Factory, Scheinfeld, Germany	1,657,000	4,266,000	1,430	205.7
adidas Apparel Factory, Suzhou, China	411,416	0	1,096	4.4
adidas Canada Assembly Factory, Brantford, Canada ²	n/a	n/a	n/a	n/a
Reebok-CCM Hockey Factory, Cowansville, Canada	2,691,900	1,859,260	901	295.7
Reebok-CCM Hockey Factory, St. Hyacinthe, Canada	2,113,800	1,054,360	3,195	37.5
Reebok-CCM Hockey Factory, St. Jean, Canada	2,932,200	3,345,620	2,522	108.8
Reebok-CCM Hockey Factory, Edmundston, Canada	1,432,200	0	1,414	92.3
Reebok-CCM Hockey Factory, Tammela, Finland	1,630,280	1,708,000	1,104	296
Reebok-CCM Hockey Factory, Malung, Sweden ³	n/a	n/a	n/a	n/a
Sports Licensed Division, Factory, Indianapolis, USA	11,539,589	113,742	9,107	437
Sports Licensed Division, Factory, Mattapoisett, USA	700,979	508,678	n/a	177
Sports Licensed Division, Factory, Cedar Rapids, USA	1,712,461	3,459,334	4,553	67
TaylorMade Assembly Factory, Togane-Shi, Japan	486,717	710	1,429	14

¹ Figures cover TaylorMade HQ and assembly factory

² Figures are not available for 2007 because site was acquired in November 2007

³ Figures are not available for 2007 because site is externally leased

CERTIFICATIONS OBTAINED BY ATHLETIC FOOTWEAR SUPPLIER SITES¹

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.

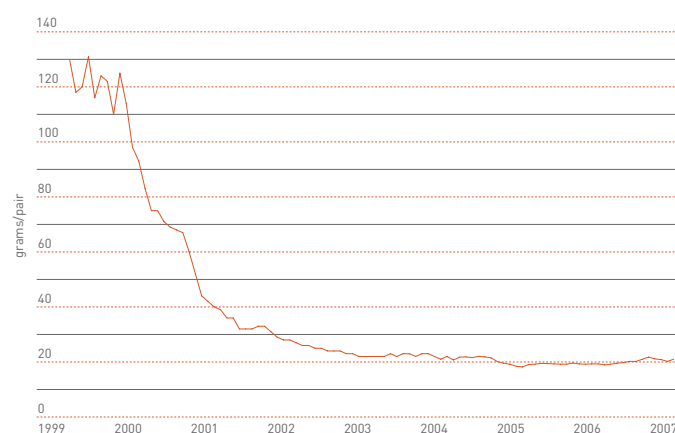
In 2007, our Group's supply base included 22 athletic footwear suppliers' factories worldwide certified in accordance with OHSAS 18000 and/or ISO 14001. These suppliers were responsible for the production of around 75% of our footwear sourcing volume.

Country	Number of FW suppliers	ISO 14001	OHSAS 18001
Argentina	2	0	0
Brazil	3	0	0
China	12	12	12
Germany	1	1	1
India	1	0	0
Indonesia	6	3	3
Italy	1	0	0
Korea	1	1	0
Thailand	1	0	0
Vietnam	7	5	4
Total	35	22	20

¹ Excluding factories from the Rockport business segment and licensee factories

REDUCING VOCs IN ATHLETIC FOOTWEAR SUPPLIER FACTORIES

VOCs – volatile organic compounds – are found in solvents used in the manufacturing process. They can cause breathing difficulties and other health complaints. Our target is an average VOC emission of 20 grams/pair of shoes. The company's footwear suppliers have reduced VOC emissions from 140 grams/pair in 2000 to 20.3 grams/pair in 2007, which includes nearly all new adidas Group athletic footwear factories.



Reduction of VOC exposure in grams/pair of sports shoes

FREIGHT TYPES USED TO SHIP ADIDAS PRODUCTS¹

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.

Compared to previous years, increased air and truck shipments in 2007 were partly caused by order re-allocations to meet delivery deadlines.

Apparel

Freight type	2007	2006	2005
Truck	18%	21%	22%
Sea freight	74%	72%	73%
Air freight	7%	6%	4%
Sea and air freight	1%	1%	1%

Hardware²

Freight type	2007	2006	2005
Truck	3%	3%	4%
Sea freight	94%	95%	95%
Air freight	3%	2%	1%
Sea and air freight	0%	0%	0%

Footwear

Freight type	2007	2006	2005
Truck	8%	2%	3%
Sea freight	89%	97%	96%
Air freight	3%	1%	1%
Sea and air freight	0%	0%	0%

¹ Figures expressed as a percentage of the total number of products transported

² Accessories and gear

EMPLOYEES

KEY EMPLOYEE STATISTICS

On December 31, 2007, the Group had 31,344 employees, which represents an increase of 19% versus the previous year's level of 26,376. This development is primarily related to new employees in the adidas segment in emerging markets as well as own retail activities. At the end of 2007, 48% of our total employees were women and 52% were men. Of the executive management positions, 30% were held by women and 70% were held by men.

Index/reporting unit	adidas	Reebok	TaylorMade-adidas Golf	Group functions ¹	Total
Total employees – Male (in %)	52%	54%	68%	44%	52%
Total employees – Female (in %)	48%	46%	32%	56%	48%
Management positions held – Male (in %)	67%	77%	84%	68%	70%
Management positions held – Female (in %)	33%	23%	16%	32%	30%
Average age of employees (in years) ²	29.6	28.9	36.6	36.3	30.8
Employee turnover (in %) ³	18.8%	45.2%	12.4%	22.3%	24.2%
Average tenure per employee (in years)	3.6	3.5	5	5.9	4
Annual training hours by employee	16.1	8.1	4.5	6.4	12.4

¹ Global Marketing, Global Operations, Global Corporate Services (e.g. Legal, Finance, HR)

² At year-end

³ Voluntary attrition

HEALTH AND SAFETY STATISTICS FOR OUR MAIN ADMINISTRATION OFFICES AND OWN PRODUCTION SITES

Our main administration offices	No. of employees	Total no. of workplace accidents	Total no. of lost days due to accidents
HQ of the adidas Group, Herzogenaurach, Germany	2,395	9	n/a
adidas America Inc., Portland, USA	773	10	179
Reebok HQ, Canton, USA	1,237	3	13
TaylorMade-adidas Golf HQ, Carlsbad, USA ¹	850	19	38

Our own production sites	No. of employees	Total no. of workplace accidents	Total no. of lost days due to accidents
adidas Apparel Factory, Suzhou, China	197	0	0
adidas Footwear Factory, Scheinfeld, Germany	150	3	n/a
adidas Canada Assembly Factory, Brantford, Canada ²	n/a	n/a	n/a
Reebok-CCM Hockey Factory, Cowansville, Canada	102	1	5
Reebok-CCM Hockey Factory, St. Hyacinthe, Canada	200	5	137
Reebok-CCM Hockey Factory, St. Jean, Canada	175	18	82
Reebok-CCM Hockey Factory, Edmundston, Canada	78	7	70
Reebok-CCM Hockey Factory, Tammela, Finland	84	3	11
Reebok-CCM Hockey Factory, Malung, Sweden ³	n/a	n/a	n/a
Sports Licensed Division, Factory, Indianapolis, USA	802	45	129
Sports Licensed Division, Factory, Mattapoisett, USA	124	6	36
Sports Licensed Division, Factory, Cedar Rapids, USA	175	19	15
TaylorMade Assembly Factory, Togane-Shi, Japan	150	0	0

¹ Figures cover TaylorMade HQ and assembly factory

² Figures are not available for 2007 because site was acquired in November 2007

³ Figures are not available for 2007 because site is externally leased

COMMUNITY AFFAIRS

COMMUNITY AFFAIRS STATISTICS

In 2007, the adidas Group was involved in more than 1,450 community projects and around 900,000 units of product were donated to good causes. The table below outlines the regions' specific activities.

Region	Donation requests received	Total number of projects supported	Units of products donated	Volunteer hours
EMEA	1,915	191	762,517	710
Latin America	304	73	53,495	30
North America	4,265	999	55,471	1,638
Asia Pacific	1,044	192	19,808	775
Total	7,528	1,455	891,291	3,153

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 minimising environmental impact.

Dow Jones Sustainability Indexes (DJSI)

Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and Sustainable Asset Management (SAM) they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios.

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 Factories Clearinghouse (FFC)

A collaborative industry effort involving retail and consumer brands and retail trade associations to create a system for managing and sharing social audit information.

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.

FTSE4Good Index Series

The FTSE4Good Index Series has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies.

Global Operations

Group function which manages product development, commercialisation and distribution and also supervises the major part of manufacturing for the adidas, Reebok and TaylorMade-adidas Golf segments.

Global Reporting Initiative (GRI)

Independent institution developing a generally accepted framework for sustainability reporting.

International Labour Organization (ILO)

The ILO is the tripartite UN agency that brings together governments, employers and workers of its member states in common action to promote decent work throughout the world. Its main aims are to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue in handling work-related issues.

ISO 14000/1

Environmental management standard.

Key Performance Indicator (KPI)

Measures the effectiveness of actions taken by our suppliers to ensure compliance with the 'Workplace Standards'.

Lean

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

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.

Occupational Health and Safety Assessment Series 18001 (OHSAS)

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.

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 by-products of the shoe manufacturing process.

Workplace Standards

The Group's supply chain code of conduct, formerly known as the 'Standards of Engagement' (SOE). 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.

CONTACT US

We welcome your views about our efforts to become a more sustainable company.

You can contact us at:

adidas 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 about our social and environmental programme please send an email to sustainability@adidas-Group.com

For media inquiries please send an email to corporate.press@adidas-Group.com

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 (www.fairlabor.org), of which we are a member.


GRI INDEX

The Global Reporting Initiative has comprehensively captured stakeholders' views in an internationally consistent format that guides business on how to report about their sustainability performance. Its reporting guidelines help us to identify structure, prioritise, evaluate and present key issues that are relevant and meaningful to stakeholders.

With the launch of the GRI G3 Guidelines an application scheme was introduced that allows companies to communicate how much of the Reporting Framework has been used in their reporting process.

We used the GRI G3 Application Level table to assess what information the adidas Group could report:

Report Application Levels

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared							
	Third Party Checked							
	GRI Checked							
			Report Externally Assured		Report Externally Assured		Report Externally Assured	

We concluded that we can report to Level C.

WHY THE ADIDAS GROUP CHOSE LEVEL C REPORTING

For the 2007 report we have chosen level C reporting for the following reasons: we have gone through a careful and rigorous self-critical process of analysis of where our report completely meets the relevant indicators; we acknowledge that there are still gaps in our reporting. However it is part of our approach to transparency and credible communication not to hide these gaps to our stakeholders by superficially addressing issues in the report, which are not backed by effective policies and programmes.

While the GRI guidelines are a useful benchmark for report readers, we believe they do not fully take into account the nature of the sporting goods industry, where the impacts of supply chain management and their specific challenges outweigh the direct social and environmental impacts of the companies themselves.

We are committed to continuously improve our efforts to transparency and to strive towards advanced levels of reporting in the coming years.

To make the gaps in our report clear to readers, we have highlighted them in the index below. Some of this information is covered in our Annual Report, or on our website at www.adidas-Group.com

For more about the GRI and its reporting guidelines, visit www.globalreporting.org

Ref	Indicator according to GRI (G3)	Location
Profile		
1.	STRATEGY AND ANALYSIS	
1.1	Statement from the CEO or Chairman of the Supervisory Board	Online Report/CEO Statement
1.2	Description of key impacts, risks, and opportunities	Online Report/Business and report overview/ Challenges and responses; Annual Report, p104 et seq.
2.	ORGANISATIONAL PROFILE	
2.1	Name of the organisation	Online Report/Homepage
2.2	Primary brands, products, and/or services	Online Report/Business and report overview/ Business profile; Annual Report, p43 et seq., p157
2.3	Business areas and operational structure	Online Report/Business and report overview/ Business profile; Annual Report, p60 et seq., p194 et seq.
2.4	Location of organisation's headquarters	Online Report/Business and report overview/ Business profile; Annual Report, p60 et seq.
2.5	Number of countries where the organisation operates	Online Report/Business and report overview/ Challenges and responses; Annual Report, p60 et seq., p194 et seq.

Ref	Indicator according to GRI (G3)	Location
2.6	Nature of ownership and legal form	Online Report/Business and report overview/ Business profile
2.7	Markets served	Annual Report, p43 et seq., p60 et seq.
2.8	Scale of the reporting organisation	Online Report/Business and report overview/ Business profile; Annual Report, p43 et seq., p60 et seq.
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Annual Report, p163
2.10	Awards received in the reporting period	Corporate Website/Sustainability/Reporting/Awards
3.	REPORT PARAMETERS	
	Report Profile	
3.1	Reporting period	Online Report/Business and report overview/ About this report
3.2	Date of most recent previous report	Corporate Website/Sustainability/Reporting
3.3	Reporting cycle	Corporate Website/Sustainability/Reporting
3.4	Contact point for questions regarding the report	Online Report/Contact us Corporate website/Sustainability/Reporting
	Report Scope and Boundary	
3.5	Process for defining report content	Online Report/Business and report overview/ About this report
3.6	Boundary of the report	Online Report/Business and report overview/ About this report
3.7	Specific limitations on the scope or boundary of the report	Online Report/Business and report overview/ About this report
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	Online Report/Business and report overview/ About this report
3.9	Data measurement techniques and the bases of calculations	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports	Online Report/Business and report overview
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Online Report/Business and report overview
	GRI Content Index	
3.12	Table identifying the location of the Standard Disclosures in the report	GRI Index
	Assurance	
3.13	External assurance statement	Online Report/Business and report overview/ About this report

Ref	Indicator according to GRI (G3)	Location
4.	GOVERNANCE; COMMITMENTS AND ENGAGEMENT	
	Governance	
4.1	Governance structure, including responsibility for sustainability	Online Report/Vision and governance/Managing our responsibilities/Corporate governance and risk management
4.2	Independence of the Supervisory Board Chairman	Annual Report, p26 et seq.
4.3	Number of members of the highest governance body that are independent and/or non-executive members	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Online Report/Our employees/Employee involvement; Corporate Website/Investors
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organisation's performance (including social and environmental performance)	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Corporate Website/Corporate Governance/Corporate governance principles
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics	
4.8	Mission statement, company values and codes of conduct	Online Report/Vision and governance
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	Online Report/Vision and governance/Managing our responsibilities/Corporate governance and risk management
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	
	Commitments to External Initiatives	
4.11	Implementation of the precautionary principle	Online Report/Protecting the environment
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	Online Report/Engaging our stakeholders/Partnerships
4.13	Memberships in associations and/or national/international advocacy organisations	Online Report/Engaging our stakeholders/Partnerships
	Stakeholder Engagement	
4.14	List of stakeholder groups engaged by the organisation	Online Report/Engaging our stakeholders/Our stakeholders
4.15	Basis for identification and selection of stakeholders	Online Report/Engaging our stakeholders/Ways we engage
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Online Report/Engaging our stakeholders/Ways we engage
4.17	Statements on key concerns raised by stakeholders	Online Report/Engaging our stakeholders/Ways we engage

Ref	Indicator according to GRI (G3)	Location
5.	PERFORMANCE INDICATORS	
	ECONOMIC	
DMA	Management Approach disclosures	Annual Report, p12 et seq.
	Aspect: Economic Performance	
EC1	Direct economic value generated and distributed	Annual Report, Inside front cover, p78 et seq.; Corporate Website/Investors/Key financial data
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	
EC3	Coverage of the organisation's defined benefit plan obligations	
EC4	Significant financial assistance received from government	
	Aspect: Market Presence	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	
EC6	Policy, practices, and proportion of spending on locally-based suppliers	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	
	Aspect: Indirect Economic Impacts Core	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind, or pro bono engagement	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	
	ENVIRONMENTAL	
DMA	Management Approach disclosures	Online Report/Protecting the environment
	Aspect: Materials	
EN1	Materials used by weight or volume	
EN2	Percentage of materials used that are recycled input materials	
	Aspect: Energy	
EN3	Direct energy consumption by primary energy source	Online Report/Business and report overview/ Performance data/Environment
EN4	Indirect energy consumption by primary source	
EN5	Energy saved due to conservation and efficiency improvements	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	Online Report/Protecting the environment
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Online Report/Protecting the environment
	Aspect: Water	
EN8	Total water withdrawal by source	
EN9	Water sources significantly affected by withdrawal of water	
EN10	Percentage and total volume of water recycled and reused	

Ref	Indicator according to GRI (G3)	Location
Aspect: Biodiversity		
EN11	Use of land in protected areas	
EN12	Significant impacts of activities in protected areas	
EN13	Habitats protected or restored	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	
Aspect: Emissions, Effluents, and Waste		
EN16	Total direct and indirect greenhouse gas emissions by weight	
EN17	Other relevant indirect greenhouse gas emissions by weight	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Online Report/Protecting the environment/ Tackling pollution/CO ₂ emissions from transport
EN19	Emissions of ozone-depleting substances by weight	Online Report/Protecting the environment/ Improving design and materials
EN20	NO _x , SO _x , and other significant air emissions by type and weight	
EN21	Total water discharge by quality and destination	
EN22	Total weight of waste by type and disposal method	
EN23	Total number and volume of significant spills	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	
Aspect: Products and Services		
EN26	Initiatives to mitigate environmental impacts of products and services	Online Report/Protecting the environment/Product safety
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	
Aspect: Compliance		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Online Report/Protecting the environment/Product safety
Aspect: Transport		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	Online Report/Protecting the environment/ Tackling pollution/CO ₂ emissions from transport
Aspect: Overall		
EN30	Total environmental protection expenditures and investments by type	

Ref	Indicator according to GRI (G3)	Location
LABOUR PRACTICES AND DECENT WORK		
DMA	Management Approach disclosures	Online Report/Managing our supply chain
Aspect: Employment		
LA1	Total workforce by employment type, employment contract, and region	Annual Report, p68 et seq.
LA2	Total number and rate of employee turnover by age group, gender, and region	Online Report/Business and report overview/ Performance data/Employees
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	
Aspect: Labour/Management Relations		
LA4	Percentage of employees covered by collective bargaining agreements	
LA5	Minimum notice period(s) regarding operational changes	
Aspect: Occupational Health and Safety		
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programmes	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region	Online Report/Business and report overview/ Performance data/Employees
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	Online Report/Our employees/Health and safety
LA9	Health and safety topics covered in formal agreements with trade unions	
Aspect: Training and Education		
LA10	Average hours of training per year per employee by employee category	Online Report/Business and report overview/ Performance data/Employees
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Online Report/Our employees/Developing our people
LA12	Percentage of employees receiving regular performance and career development reviews	Online Report/Our employees/Developing our people
Aspect: Diversity and Equal Opportunity		
LA13	Diversity in senior management and employees structure	Online Report/Business and report overview/ Performance data/Employees
LA14	Ratio of basic salary of men to women by employee category	
HUMAN RIGHTS		
DMA	Management Approach disclosures	Online Report/Managing our supply chain
Aspect: Investment and Procurement Practices		
HR1	Investment agreements that include human rights clauses or that have undergone human rights screening	
HR2	Percentage of suppliers and contractors that have undergone screening on human rights	Online Report/Business and report overview/ Performance data

Ref	Indicator according to GRI (G3)	Location
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Online Report/Managing our supply chain/ Training our suppliers
	Aspect: Non-discrimination	
HR4	Total number of incidents of discrimination and actions taken	
	Aspect: Freedom of Association and Collective Bargaining	
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	Online Report/Business and report overview/ Business challenges; Online Report/Managing our supply chain
	Aspect: Child Labour	
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	Online Report/Managing our supply chain
	Aspect: Forced and Compulsory Labour	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	Online Report/Managing our supply chain
	Aspect: Security Practices	
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	
	Aspect: Indigenous Rights	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	
	SOCIETY	
DMA	Management Approach disclosures	Online Report/Working with the community/ Managing community affairs
	Aspect: Community	
S01	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	
	Aspect: Corruption	
S02	Percentage and total number of business units analysed for risks related to corruption	
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures	
S04	Actions taken in response to incidents of corruption	
	Aspect: Public Policy	
S05	Public policy positions and participation in public policy development and lobbying	
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Corporate website/Sustainability/Community affairs/ Corporate giving
	Aspect: Anti-Competitive Behaviour	
S07	Total number of legal actions for anticompetitive behaviour, anti-trust, and monopoly practices and their outcomes	

Ref	Indicator according to GRI (G3)	Location
Aspect: Compliance		
SO8	Fines/sanctions for non-compliance with laws and regulations	
PRODUCT RESPONSIBILITY		
DMA	Management Approach disclosures	Online Report/Protecting the environment/Product safety
Aspect: Customer Health and Safety		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed	Online Report/Protecting the environment/Improving design and materials/Restricted substances
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	Online Report/Protecting the environment/Product safety
Aspect: Product and Service Labelling		
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	
Aspect: Marketing Communications		
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	
Aspect: Customer Privacy		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	
Aspect: Compliance		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	