

WARNING-LETTER SYSTEM TO ENFORCE STANDARDS In the event of a violation of the adidas Group's Workplace Standards, we immediately undertake all necessary steps to remedy the situation. Our internal monitors work closely with factory management to develop concrete action plans with remediation deadlines.

When we find ongoing and serious instances of non-compliance and a lack of commitment from factory management to address the issues, we issue a first formal warning letter including a notification to factory management that their business relationship with the adidas Group is in jeopardy. A second warning letter is issued when adequate improvements have not been made within agreed timelines. After the second warning, if the supplier has still failed to initiate appropriate action to remedy the situation, a third and final warning letter will be sent. On any given issue, failure to respond appropriately to the third warning letter usually results in a termination of the business relationship.

In the event of continuous non-compliance, we see termination of the business relationship as a last resort. Whenever possible, however, we prefer to stay in partnership and to work from the inside to help encourage factory improvements. In 2007, we terminated our business relationship with four suppliers for compliance reasons.

CAREFUL SUPPLIER SELECTION To improve working conditions throughout our supply chain, our Group SEA team works closely with the Global Operations function on supplier selection. The SEA team assesses all potential new suppliers and orders can only be placed with a new supplier when SEA approval has been granted.

ENCOURAGING SELF-GOVERNANCE THROUGH MANAGEMENT SYSTEM SUPPORT Good management systems help factories improve their day-to-day operations and support the process of internalization and self-governance. Therefore, we support our business partners in establishing management systems with internationally recognized standards such as ISO (International Standardization Organization) 14001 for quality and environmental management and OHSAS (Occupational Health and Safety Assessment Series) 18001. By running a certified management system, our suppliers demonstrate their commitment to continuously enhancing their performance. We help them build or improve human resources systems to maintain proper working conditions, including factory grievance systems to routinely find and fix non-compliance problems. Further, by enforcing employment standards at our suppliers' sites, we empower workers to protect their own rights and take an active role in decision-making. In 2007, our Group's supply base included 22 athletic footwear suppliers' factories worldwide, which were OHSAS 18000 and/or ISO 14001 certified. These suppliers produced around 75% of our footwear sourcing volume.

TAILORED TRAINING TO ACHIEVE SUSTAINABLE COMPLIANCE To achieve long-term sustainable compliance, we consider training even more important than monitoring and policing factories. Our SEA team offers specific training courses for supervisors and managers to help them apply our Standards. Further, we promote the establishment of sustainable structures that actively involve workers and management of our suppliers as well as local employee associations and non-governmental organizations (NGOs). In this way, acceptable working conditions become a routine part of business activities. In 2007, the SEA team conducted 267 training sessions and workshops for suppliers, licensees, workers and adidas Group employees (2006: 173).

INTERNAL MONITORING THROUGH FACTORY INSPECTIONS

The SEA team assesses compliance with the Workplace Standards by means of factory inspections. We apply innovative monitoring approaches such as deeper and more frequent monitoring than in previous years of fewer suppliers in our core supply chain than in the past. This allows us to rigorously assess compliance risks and to identify the root causes of non-compliance. Our auditors check performance against a customized risk list for each factory that is monitored. The methodology is linked to a factory rating which measures the effectiveness of compliance systems and the work of their administrators. This enables us to precisely determine training needs at our suppliers' factories. The SEA team also acts as a change agent, advising our manufacturing partners how to correct instances of non-compliance and how to prevent future non-compliance. During 2007, we conducted 1,007 factory visits involving management and worker interviews, document review, facility inspections and trainings at different levels in our supply chain (2006: 1,101 visits).

EXTERNAL INDEPENDENT ASSESSMENT UNDERLINES CREDIBILITY OF SEA PROGRAM

In addition to internal monitoring, we value independent assessment by third parties to demonstrate the credibility of and provide verified information about our program to stakeholders. In 1999, we joined the FLA, a non-profit multi-stakeholder coalition of private corporations, NGOs and universities. As a member, the adidas Group is subject to external assessment by independent monitors, participation in the FLA third-party complaint system and public reporting. The FLA publishes an annual report that includes a transparent evaluation system for the results of participating companies. Following extensive reviews, the FLA accredited the individual monitoring programs of both adidas (in 2005) and Reebok (in 2004). In 2007, the adidas Group as a combined entity assumed the role as the FLA participating company. The next FLA evaluation and program re-accreditation of the entire adidas Group monitoring program is scheduled for 2008. Since joining the FLA, more than 200 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers. In 2007, external FLA-accredited independent monitors conducted 12 monitoring audits (2006: 35) and 3 independent external verification visits (2006: 8).