

SUSTAINABILITY The adidas Group must manage wide-ranging commercial and competitive pressures to deliver growth. Simultaneously, we have a responsibility towards our employees and the environment, to ensure that decent working conditions and environmental standards are met throughout our global organization and supply chain. We always strive to manage both our own activities and our supply chain responsibly and to reduce our environmental impact. Moreover, we believe that acting as good corporate citizens will improve our corporate reputation and hence our economic value, helping us to be a sustainable company.

ACTIVE ENGAGEMENT WITH STAKEHOLDERS At the adidas Group, we pursue a policy of open dialog with our numerous stakeholders. We actively and systematically engage with them, involving them in key social and environmental decisions that shape our day-to-day operations. Through our membership in organizations such as the World Business Council for Sustainable Development (WBCSD), the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC) and the Fair Labor Association (FLA), we work closely with top companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. In addition, we always strive to report in an open and transparent way. Comprehensive information on the Group's social and environmental programs is provided in our 2007 Social and Environmental Report and on our website. www.adidas-Group.com/sustainability

WORKPLACE STANDARDS SET RULES IN SUPPLY CHAIN

Following the acquisition of Reebok, we combined the best of both companies' previous social and environmental programs and created a new Group-wide set of Workplace Standards for our supply chain. These are based on International Labour Organization (ILO) and UN conventions relating to human rights and employment practices, and they follow the WFSGI model code of conduct. Our Workplace Standards contain clear rules of conduct regarding:

- ⇒ Environmentally sound, safe and healthy working conditions
- ⇒ Fair wages and benefits
- ⇒ Freedom of association
- ⇒ Prohibition of excessive overtime, forced and child labor
- ⇒ Protection against harassment and discrimination

These Standards help us select manufacturing partners and serve as guiding principles in the early identification and treatment of potential issues of concern at our suppliers' sites. To illustrate how suppliers should implement our Standards, we have created a set of guidelines for use in factory settings, which we update on a regular basis. Currently, we have six guidelines (complemented by specific supplementary materials) covering the following areas:

- ⇒ Health, Safety and Environment (HSE)
- ⇒ Employment Standards
- ⇒ Best Environmental Practice
- ⇒ Worker Cooperatives
- ⇒ Enforcement of Workplace Standards
- ⇒ Sustainable Compliance

The guidelines are also used by our Social and Environmental Affairs (SEA) team to determine suppliers' compliance with our Standards and to advise and train our suppliers in improving their social and environmental performance.

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).

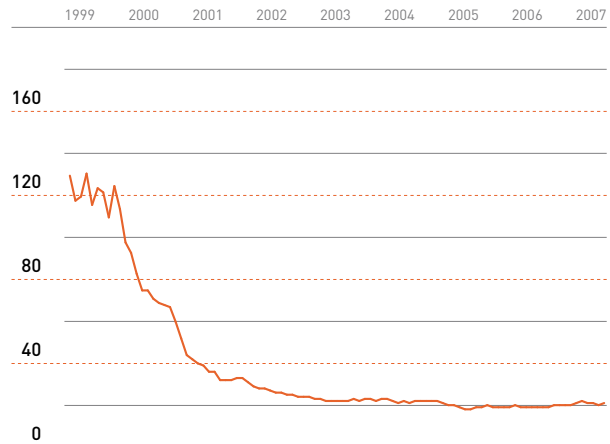
EXTERNAL INDEPENDENT ASSESSMENT UNDERLINES CREDIBILITY OF SEA PROGRAM In addition to internal monitoring, we value independent assessment by third parties to demonstrate the credibility of and provide verified information about our program to stakeholders. In 1999, we joined the FLA, a non-profit multi-stakeholder 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).

NUMBER OF FACTORY VISITS/AUDITS

	Internal	FLA
2003 ¹⁾	906	13
2004 ¹⁾	954	12
2005 ¹⁾	916	14
2006 ²⁾	1,101	43
2007²⁾	1,007	15

1) Including Salomon business segment.
2) Including Reebok business segment.

VOC CONSUMPTION¹⁾
in grams per pair of shoes produced



1) At year-end.

SYSTEM-BASED APPROACH TO MANAGE ENVIRONMENTAL IMPACTS

We have adopted a system-based approach to managing environmental impacts in our own production facilities and throughout our supply chain. Activities focus on helping suppliers establish sound environmental management systems to best reduce their negative environmental impacts.

We develop guidelines and training programs for our suppliers using the environmental performance of our own production sites as examples of best practice. We have mandated the implementation of environmental management systems at our core suppliers to ensure continuous monitoring and improvements. In our product creation process, we focus on improving materials in our products and on tackling pollution in factories. Our goal is to eliminate polluting materials and processes and to increasingly utilize sustainable materials instead. To achieve this goal we have several key initiatives in place such as controlling and monitoring restricted substances and reducing emissions of Volatile Organic Compounds (VOCs).

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 suppliers are required to avoid using restricted substances. We have specified clear standards that follow the strictest local regulations and best practice standards for consumer care and safety in the Group's policy for monitoring and control of hazardous substances. This policy is mandatory for all business partners and is updated regularly based on findings in our ongoing dialog with scientific organizations. Our standards cover the general requirements for eco-labels and green seals (e.g. ÖKO-Tex Standard 100, Tox Proof TUV Rhineland, etc.) for footwear, apparel and hardware products. Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with these requirements. Materials that do not meet our standards and specifications are rejected.

REDUCING VOC EMISSIONS Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can cause breathing difficulties and other health problems for production workers. Therefore, we are committed to reducing VOC emissions in our suppliers' footwear factories. Our efforts focus on nearly all new adidas Group footwear factories and reflect the technical synergies of sharing information, data and sources on production questions such as water-based cement systems. At our core footwear suppliers we measure the exposure and the records taken provide evidence that workers are not being exposed to dangerous levels of VOCs. Nonetheless, we remain committed to further reducing emissions. In recent years, we have made significant progress. Our athletic footwear suppliers in Asia and Europe have reduced VOC emissions from 140 grams per pair in 2000 to 20.3 grams per pair in 2007. Our target is an average VOC emission of 20 grams/pair of shoes.

STRONG SUSTAINABILITY TRACK RECORD REFLECTED IN INDEX MEMBERSHIPS

We appreciate positive recognition from international institutions and rating agencies, NGOs and socially responsible investment analysts. They evaluate our efforts through in-depth analysis of our social and environmental program, including document review as well as interviews with employees and management. As a result, adidas AG has been included in a variety of high-profile sustainability indexes. [see Our Share, p. 036](#)