



ADIDAS GROUP

ASSESSMENT FOR REACCREDITATION

OCTOBER 2017

TABLE OF CONTENTS

TABLE OF CONTENTS.....	2
INTRODUCTION	3
SECTION 1: ADIDAS GROUP AFFILIATE OVERVIEW	4
SECTION 2: ADIDAS GROUP SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2008-2017	6
SECTION 3: ANALYSIS OF ADIDAS GROUP LABOR COMPLIANCE PROGRAM FOR ACCREDITATION	7
SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS ..	27
APPENDIX A: ADIDAS GROUP WORKPLACE STANDARDS.....	28
APPENDIX B: THIRD PARTY COMPLAINT AND INDEPENDENT INVESTIGATION SUMMARY	31



adidas North America Headquarters in Portland, Oregon, USA.

INTRODUCTION

On October 29th, 2008, the FLA Board of Directors voted to approve the reaccreditation of the adidas Group's labor compliance program. When joining the FLA, Participating Companies and Participating Suppliers commit to implementing the [FLA Workplace Code of Conduct](#), which aims to ensure "respectful and ethical treatment of workers" and "promotes sustainable conditions through which workers earn fair wages in safe and healthy workplaces." The [Principles of Fair Labor and Responsible Sourcing / Production](#) ("Principles") serve as the standards upon which Participating Companies and Participating Suppliers are assessed towards an accreditation of their labor compliance program. Participating Companies and Participating Suppliers with [accredited](#) compliance programs have demonstrated that they have in place the systems and procedures to successfully uphold fair labor standards throughout their supply chains. In assessing for reaccreditation, the FLA looks for continued implementation of the workplace standards and focuses on key components that innovatively support the FLA's mission to "improve workers' lives worldwide."



The FLA accreditation process involves staff conducting due diligence on the performance of a Participating Company or Participating Supplier during the implementation period. To assess an affiliate for reaccreditation of their labor compliance program, the FLA focuses on implementation of responsible purchasing practices, civil society engagement, remediation efforts, and program innovations. This assessment involved testing a selection of data points or information sources in order to verify actions by the company. Sources of information include:

- 1) **Affiliate Headquarter Assessment:** Assessments at headquarters and field offices to interview staff involved in compliance and in other functions, and to review documentation, processes, and database capabilities. In some cases, the offices of agents are visited as well. In countries where the FLA is not able to conduct in-person assessments, interviews are conducted by phone with company staff involved in compliance and in other functions.
- 2) **FLA Factory-Level Assessments:** Independent External Monitoring (IEM), Independent External Verification (IEV), and Sustainable Compliance Initiative (SCI) assessments are all sources of information on compliance issues and remediation efforts. For reaccreditation, affiliates are subject to Verification Assessments, which verify remediation efforts and may include analysis of the affiliate's assessment tool.
- 3) **Annual Reports:** Affiliate annual reports provide data on the evolution of an affiliate's compliance program in line with FLA Principles.
- 4) **FLA Third-Party Complaints:** Where relevant, an affiliate's involvement in, and responsiveness to, FLA Third-Party Complaints provides additional insight into compliance programs and remediation strategies.
- 5) **FLA Strategic Projects:** Where relevant, an affiliate's participation in FLA Strategic Projects provides opportunities to learn about the affiliate's compliance strategies for detecting and remediating complex issues.
- 6) **Observations:** Wherever possible, FLA staff accompanied affiliate compliance staff on internal audits, training sessions or remediation visits.
- 7) **Routine Interactions:** Information on the affiliate's compliance program has also been collected through discussions and interactions with affiliate compliance staff in the course of each year's program. Exchanges with civil society organizations and other stakeholders interacting with the affiliate provide additional perspective.

SECTION 1: ADIDAS GROUP AFFILIATE OVERVIEW

Name of Company	adidas Group	Category	Participating Company (PC)
Location	Herzogenaurach, Bavaria, Germany	Products	Apparel, Footwear, Accessories, Sports Equipment
Total Annual Revenue	€19.291 Billion	Current Number of Applicable Facilities	475
FLA Affiliation Month/Year	January 2001 (Founding Member)	Most Recent Reaccreditation Month/Year	October 2008
FLA Reaccreditation Lead/Support	Leads: Tiffany Rogers (Program Manager, Business Accountability); Jen Caruso (former Associate Director, Business Accountability) Support: Bril Lacno (Regional Manager, Southeast Asia)		
Unique Company Characteristics	<ol style="list-style-type: none"> 1) The founder of adidas, Adolf Dassler, started making shoes with his brother in the 1920s. In 1949, Dassler formed adidas after a feud with his brother, Rudolph Dassler, who then founded PUMA. Today, adidas and PUMA are known for working together to address labor violations in their shared suppliers, along with fellow FLA Participating Companies, such as New Balance, Under Armour, Dallas Cowboys Merchandising, Gear for Sports, and others. 2) In 2006, adidas acquired Reebok; FLA verified the consolidation of the social compliance programs in the 2008 Reaccreditation. From 2006 until present, the adidas Group has divested of several brands. ¹In 2017, adidas announced that they would sell their remaining golf and hockey brands to private equity firms, leaving adidas and Reebok as the two brands of the adidas Group. 3) adidas' corporate culture is based on the belief that through sport, it has the power to change lives. This belief is applied to adidas employees, athletes, consumers, the people who make adidas products, and the people who are employed through adidas-sponsored sporting events. adidas puts in practice this belief through various business strategies and programs, the adidas' Social & Environmental Affairs scope of work, stakeholder engagement, and philanthropic efforts. 		
Summary of Key Strengths	<ol style="list-style-type: none"> 1) The implementation of various supplier training and advisory programs to support the development of supplier social compliance programs to improve working conditions; 2) The leadership, recognized by various civil society organizations, to coordinate brand efforts to address labor violations and concerns; 3) Application of advancement in mobile technology to implement a SMS and application-based platform for workers to submit grievances and suppliers to manage their grievance data; 4) Collaboration with other brands to address labor violations in shared suppliers; 5) Incorporation of working hours based on a 48-hour work week into capacity planning for purchase orders; 6) Pioneering and piloting various methods to address fair compensation for workers; and 7) Program development and implementation of social compliance standards, assessments, and mapping beyond the Tier 1 supply chain, in effort to address 		

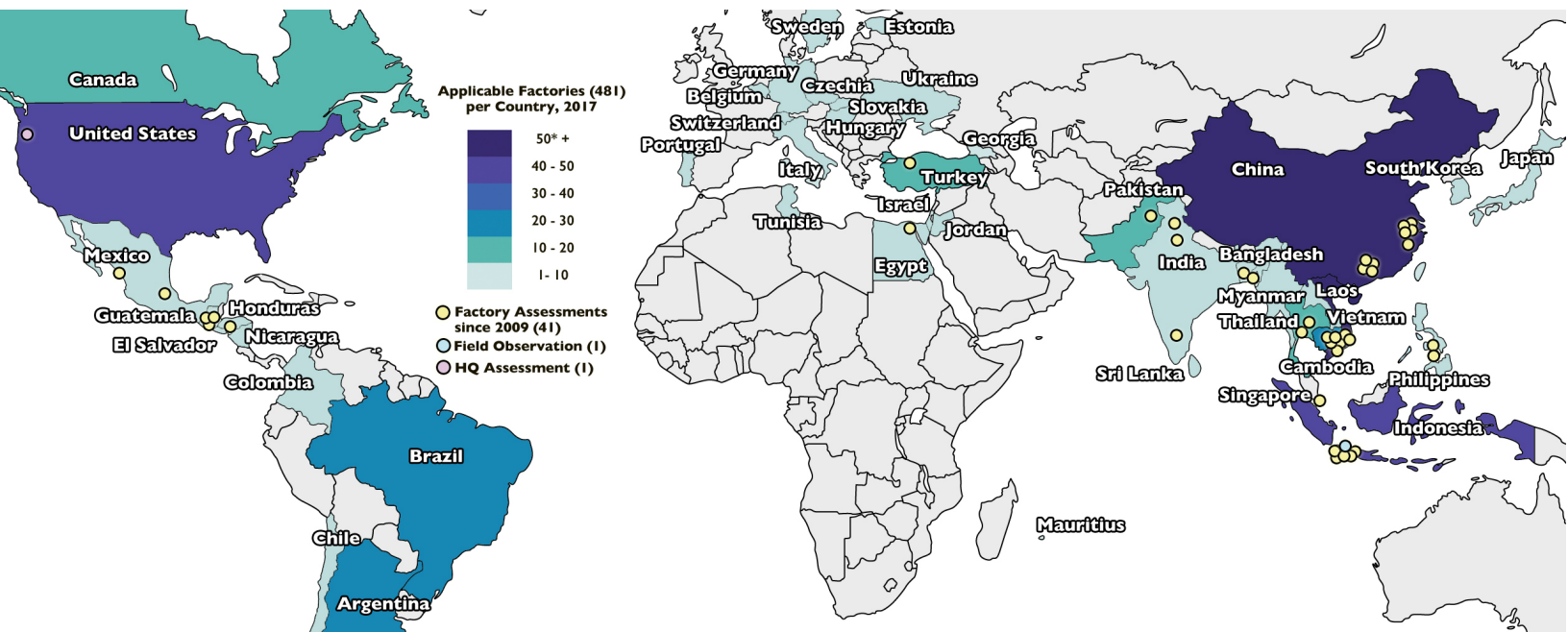
¹ The adidas Group sold Rockport in August 2015; Mitchel & Ness in July 2016; TaylorMade, Adams Golf, and Ashworth in May 2017; and CCM in July 2017.

	labor violations throughout the adidas supply chain.
Summary of Key Suggestions for Strengthening	<ol style="list-style-type: none"> 1) Continue to implement the adidas Responsible Sourcing & Purchasing Policy, and train all relevant staff, and engage with suppliers for feedback on adidas' implementation of responsible purchasing practices; 2) Continue to work with Tier 1 Suppliers in addressing labor violations in their supply chain; and 3) While beyond the scope of the FLA obligations, continue to develop and implement programs to address labor violations beyond adidas' Tier 1 supply chain.



adidas shoes and molds from the adidas' Makers Lab in the North America headquarters. Adidas staff are able to use the Makers Lab to understand how shoes are constructed and test different techniques and materials.

SECTION 2: ADIDAS GROUP SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2009-2017



adidas sources from 42 countries², with the majority of its production coming from Asia. The top sourcing countries for adidas are: China (112 factories), Vietnam (59 factories), and Indonesia (44 factories); adidas sources from 296 factories in Asia; 40 factories in South America, 18 factories in Central America, 26 factories in Europe, and 5 factories in Europe. Since 2009, adidas received 41 Independent External Assessments (IEA), IEM, IEV, SCI, and SCI Verification (SCIV) assessments. In 2017, adidas received four SCIV Assessments to verify the remediation actions from previously SCI assessed factories. adidas has not had any aborted SCI Assessments.

² The information provided in this section is based on the factories disclosed by adidas under FLA's scope affiliation and does not include all publically disclosed factories from adidas. More information on the FLA scope of adidas' affiliation can be found on page 5 of this report.

SECTION 3: ANALYSIS OF ADIDAS GROUP LABOR COMPLIANCE PROGRAM FOR ACCREDITATION

Information used in this assessment originates from reports submitted by adidas Group and verified by the FLA through:

- 1) An assessment at the adidas North America Office in Portland, Oregon, conducted by FLA staff in May 2017;
- 2) A field office visit conducted by FLA staff at the Jakarta, Indonesia Liaison Office in July 2017;
- 3) Information gathered in person, via phone interviews, and through email correspondence with adidas staff;
- 4) Documentation review of supporting evidence submitted by adidas;
- 5) Field observations of a training in Indonesia;
- 6) Completion of FLA Independent External Assessments at adidas applicable facilities conducted by FLA assessors and accredited service providers;
- 7) Interactions with adidas and stakeholders in the context of a Third-Party Complaints and Safeguards; and
- 8) Communication with stakeholders.

IMPLEMENTING THE FLA STANDARDS IN SOCIAL COMPLIANCE & BEYOND

Implementing the FLA's Principles of Fair Labor & Responsible Sourcing & Production

In 2015, FLA revised its [Principles of Fair Labor & Responsible Sourcing](#) to raise the standards of company and supplier social compliance programs, with the most notable changes being in Principle 8: Responsible Purchasing & Production Practices, and defining key performance indicators (KPIs) for all Principle Benchmarks. Through adidas' annual self-assessment submissions for 2015 and 2016, FLA verified the implementation of the KPIs. The most notable recommendation provided by the FLA to adidas was to document their remediation process and include root cause analysis and union engagement into these remediation standard operating procedures; adidas developed its remediation procedures after receiving this recommendation from the FLA in 2017 to document the process that was already in practice. adidas also worked to implement Principle 8: Responsible Purchasing Practices, which is further discussed later in this report.



adidas' SEA Vice President, Americas providing background on the SEA program during a tour of adidas' Portland Headquarters for FLA's Headquarter Assessment in May 2017.

FLA also reviewed how adidas manages the labor conditions for its owned facilities; because in 2015, FLA also established the [Principles of Fair Labor & Responsible Production](#) for suppliers and brands that own manufacturing facilities. While the Social & Environmental Affairs (SEA) Department does not conduct regular social compliance audits of the owned facilities in Germany, Canada, and the U.S., the employees of these facilities are managed by the Human Resources Departments of adidas. At

the Portland headquarter visit, FLA conducted interviews with the Senior Manager, Human Resources (HR) based in Portland and the Director of Human Resources based in adidas' Indianapolis facility. FLA found that the adidas HR Teams had implemented HR management programs that include grievance mechanisms, confidential reporting channels, review of health and safety conditions, controls on hours of work, training on workplace standards, and various worker representative groups and structures. Additionally, the SEA staff support the owned facilities in ensuring there is adequate training on adidas' workplace standards.

Code Alignment

In October 2015, the FLA Board of Directors approved the FLA's Code Alignment Policy, requiring all Participating Companies and Suppliers to align their codes of conduct with the FLA Workplace Code of Conduct by [October 2016](#). Through working with the FLA, adidas announced its aligned [Workplace Standards](#) in January 2016, aligning its standards on Employment Relationship, Hours of Work, and Compensation with the [FLA's Workplace Code of Conduct](#). adidas is working to complete translations of the Workplace Standards in local languages for all major sourcing countries; FLA verified that the code has been translated in Chinese, Bahasa, Burmese, Spanish, Urdu, and Vietnamese.

The Social & Environmental Affairs Department

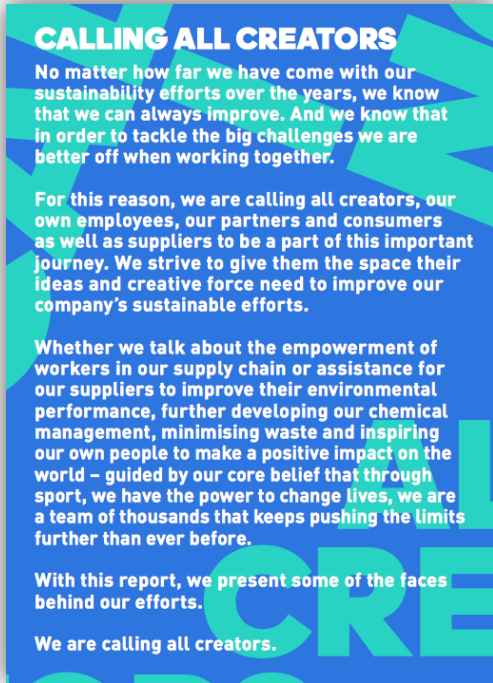
Since the 2008 Reaccreditation of adidas' social compliance program, adidas' SEA Department has worked to address their Suggestions for Strengthening from the 2008 Reaccreditation Report.³ The SEA Team has strengthened its program to conduct comprehensive supplier audits, support suppliers with remediation, provide training to suppliers on various workplace standards, and continue engagement with civil society and unions to address labor violations and concerns in their supply chain.

adidas' SEA leadership has remained the same since the 2008 Reaccreditation; the Vice Presidents of SEA in the Americas and Asia continue to report to the Global Senior Vice President of Social and Environmental Affairs. adidas' has identified the next generation of SEA leadership, like the Senior Director of Program Operations, Senior Director of Field Operations, Asia Pacific, the Senior Manager of Field Operations, Americas, and others. The next generation of adidas' SEA leadership has established their leadership within the FLA and the Corporate Social Responsibility (CSR) industry by becoming part of the FLA's Monitoring Committee and Practitioners Working Group for Fair Compensation, in addition to joining other labor-related initiatives. FLA noted the longevity and stability of the SEA's leadership and the plans for leadership transition as a strength in how adidas has been able to improve and refine its monitoring program to go beyond compliance, and strengthen its relationships with other brands, suppliers, unions, and civil society organizations.

³ The Suggestions for Strengthening included in the confidential 2008 Reaccreditation Report were: 1) *Continued efforts to expand training of workers in workplace standards*; 2) *Additional oversight of external monitors*; 3) *Encouragement of internal grievance procedures in all factories, and consistency in communicating with suppliers about confidential reporting channels*; 4) *Inclusion of retrenchment procedures as part of factory HR systems*; 5) *Application of training and sustainable compliance approaches across regions and factories, and continued measurement of progress and impact*; 6) *Increased CSO outreach at the country level*.

The Asia SEA Team, which covers about 67 percent of adidas' supply chain, is divided into two separate functions: monitoring and advisory. The monitoring staff are responsible for auditing adidas suppliers in Asia, while the advisory staff are responsible for supporting the supplier on remediation development, training, and conducting individual advisory sessions to support sustainable improvement of working conditions.

Public Reporting & Factory Disclosure



"Calling All Creators" is the theme of adidas' 2016 Sustainability Report, emphasizing the positive impact on the world that can be achieved through sport.

adidas has been publishing an annual [Sustainability Report](#) for almost 20 years. These reports capture the number of assessments, progress towards remediation, elevation of supplier performance levels, and the various projects adidas has implemented with its suppliers and communities to improve workers' lives. In 2018, adidas will incorporate its sustainability report and its annual financial report into one adidas Group public report. Additionally, adidas publicly discloses all Tier 1 and Tier 2 wet process suppliers on its [website](#), including licensee suppliers and subcontractors.

Scope of the SEA Program & FLA Affiliation

Currently, the FLA's scope of affiliation for adidas includes disclosure of 445 Tier 1 direct suppliers, owned suppliers, and collegiate subcontractors based on the FLA's Charter and Independent External Assessment requirements for FLA Participating Company affiliation. The adidas SEA program expands beyond the FLA's scope of affiliation to licensee suppliers, all subcontractors, domestic market suppliers, and Tier 2 wet-process suppliers. However, adidas has committed to disclose all Tier 1 suppliers and

subcontractors to the FLA in their 2018 factory list disclosure. For this reaccreditation, FLA reviewed the SEA program in its entirety.

Interactive Supplier Training & Advisory Sessions

adidas has worked to develop and refine its supplier training programs so that suppliers are better equipped to remediate noncompliances; these trainings are provided on a regular basis and are based on the needs in that specific country. FLA observed part of a supplier training for HR, Compliance, and Health & Safety managers of suppliers in Indonesia that focused on adidas' revised supplier performance tool, its Compliance Key Performance Indicator (C-KPI) tool, functioning grievance mechanisms, and strike management. adidas features best practice videos from other suppliers to show the participants what their peers are doing to improve working conditions. For example, in the video featured on grievance mechanisms, the supplier had all the regular mechanisms such as an open-door policy, suggestion box, SMS text hotline, and had also built a house-like building for workers to have their meetings with management to discuss grievances. This building was designed to be like a local Indonesian home, so workers felt more comfortable talking about their issues.



An SEA Field Operations Manager receive feedback from a group activity on grievance mechanisms during an adidas training for compliance, HR, and HSE factory managers. FLA observed this training during the Jakarta Field Office Visit in July 2017.

Additionally, the video featured supplier management home visits, where the management representatives went to workers' homes to understand the needs they have outside of work. adidas' Director, Field Operations, South Asia discussed with FLA that they determine which suppliers to be featured in training based on their C-KPI performance, and then work with them to develop these videos to be featured in the training. adidas finds that participants respond well to these videos because they can see how their peers are implementing adidas' standards. At the end of the training, the managers have assignments to complete, which adidas reviews to ensure the managers are applying the learnings from the training in the factory compliance programs.

adidas has also focused on supervisor skills training, because they found that supervisors need to understand the workplace standards, since they directly work with workers and can have the greatest impact on worker's happiness at the workplace. FLA reviewed that the training program consists of three modules: Communication, Building Trust & Cooperation; Motivation; and Situational Leadership Management. Additionally, supervisors receive health and safety audit cross training from the SEA Team, conduct two audits with the SEA Team, and have a review meeting with the SEA Team for feedback to be able to implement health and safety checks at the supervisor-level. The advisory SEA staff also conduct one-on-one advisory sessions with its suppliers to review the audit findings, remediation plans, and how to implement the learnings from trainings into the supplier's social compliance program. Staff also provides support on grievances, worker empowerment programs, follow-up on worker satisfaction surveys, and external engagement with unions, civil society, or other stakeholders.

Innovation in Grievance Mechanisms & Confidential Reporting

Beyond the regular assessment to ensure factories have grievance mechanisms in place, adidas provides hotline posters in all Tier 1 and wet-process facilities, informing workers how to contact local adidas staff directly. As this channel has been in place for several years adidas has recognized that the technology to report grievances has evolved to more mobile applications and text platforms. Workers prefer that their grievances be addressed by factory management. Recognizing this

commonality, adidas has started to work with its suppliers to shift to a mobile application (app) and short message service (SMS) text messaging to implement an SMS Worker Hotline. In Indonesia, Vietnam, Cambodia, and China, adidas suppliers have registered with a service provider, who provide reports to factory management that come through a SMS or app-based service. These reports also identify trends in grievances, which allow for factory management to address rumors that may be spreading throughout the workforce in a more direct and efficient manner. While adidas' telephone hotline is still available to all workers, this SMS grievance service allows for suppliers to own their confidential reporting channel, address grievances, review trends on grievances, and keep adidas informed.

FLA reviewed adidas' data on the SMS Worker Hotline from 2016: over 28,000 workers were covered by the SMS Worker Hotline in Cambodia, Indonesia, Vietnam, and China, and over 23,000 grievances were submitted through this hotline. The service provider is also able to track how many workers register in the system, download the application, and how the grievance is submitted (either through SMS or application). In China, WeChat was most used by workers to submit grievances, rather than through SMS or the application. In 6 months, over 5,000 grievances were submitted in China from three suppliers, over 3,600 of those grievances were submitted through WeChat. FLA encourages adidas to continue to roll out of this system throughout its supply chain in the Americas and EMEA regions.



In 2014, adidas' published this infographic on its SMS Worker Hotline in their annual [Sustainability Report](#) to report the progress of its implementation. Since 2014, adidas has also rolled a SMS hotline in China through WeChat.

CIVIL SOCIETY ENGAGEMENT⁴

Stakeholder Relations Guidelines

In 2016, adidas developed Stakeholder Relations Guidelines to learn how adidas can meet customer demands while contributing to a strong economy, healthy environment, and social well-being for workers. adidas has identified five main goals of strong stakeholder relations: enable sound decision-making, resolve issues, build strong communities, strengthen customer loyalty, and support shared learning. adidas identifies unions, workers, journalists, community members, and special interest groups as part of its stakeholders. The guidelines are publically available on the adidas group [Partnership Approach webpage](#).

In the guidelines, adidas outlines common forms of engagement, such as formal consultation meetings, responding to inquiries from consumers and media, collaborating with other brands in joint initiatives, participating in multi-stakeholder initiatives, and outreach to the academic community. adidas publishes its responses to civil society campaigns on its Partnership Approach webpage, such as progress reports to the Greenpeace Detox Campaign and adidas' commitment to the Trade Unions and Freedom of Association Indonesia Protocol. Additionally, adidas publishes letters to universities to update them on the progress of addressing labor violations in their supply chain.



The percentage of suppliers in each sourcing region is based on the suppliers disclosed to the FLA by adidas.

Pursuing Local Engagement with Civil Society in All Sourcing Regions

One of the strengths noted by FLA is adidas' commitment to engage with civil society and unions in many of their sourcing regions and countries. Not only has adidas developed a reputation for responding to civil society requests, they have also established themselves as brand leaders in coordinating efforts to address concerns from civil society. Below are examples of adidas' engagement with civil society in Southeast Asia, East Asia, Americas, Europe, Middle East, and Africa (EMEA), and South Asia.

South East Asia (32% of adidas' Supply Chain)

Cambodia

- ❖ Engagement on the Minimum Wage: From 2010 to 2014, adidas' Vice President of SEA, Asia engaged with relevant stakeholders to support minimum wage setting in Cambodia. These stakeholders included local unions, the International Labor Organization (ILO), and the Garment Manufacturers Association in Cambodia (GMAC). adidas participated in stakeholder forums that eventually agreed on a minimum wage setting mechanism. Specifically, FLA reviewed a

⁴ Principle 9 "Consultation with Civil Society (CSO)" articulates how a company can engage with civil society to improve the lives of the workers in its supply chain.

letter to GMAC dated April 2014, where the adidas' Senior Director of Field Operations, Asia Pacific called on GMAC to participate in these forums so all parties could come to a tripartite agreement with government, unions, and the manufacturers association.

- ❖ Safe Transportation: In partnership with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), adidas has started two-year project to address the issue of unsafe transportation for its workforce in contract facilities in Cambodia. The two-year project includes a gap analysis to identify the issues in providing safe transportation; development of road maps for four factories to implement safe transportation plans; and a final Learning & Experience Sharing workshop to discuss the results.

Indonesia

- ❖ Freedom of Association (FOA) Protocol: After years of freedom of association turmoil in Indonesia, Oxfam Australia's Indonesia Labour Rights Project (ILRP), launched a campaign to call brands into action to work with civil society and unions. The FOA Protocol was signed in June 2011 by adidas, Nike, New Balance, PUMA, and other brands, 71 suppliers, and unions representing more than 700,000 workers. The protocol was largely supported by the Play Fair Campaign, and was coordinated by international trade union federations and NGOs, such as the International Trade Union Federation (ITUC), the International Textiles, Garment, and Leather Workers' Federation (ITGLWF), the Building and Wood Workers International (BWI), the Clean Clothes Campaign (CCC), Oxfam Australia, and the Maquila Solidarity Network.

FLA interviewed Oxfam Indonesia's Private Sector & Labour Rights Coordinator during the

Jakarta Field Office Visit, who confirmed adidas' leadership role in supporting and coordinating regular meetings between the unions, signatory brands, and Oxfam. FLA also interviewed the union leader of the Serikat Pekerja Nasional (SPN) chapter at PT Nickomas owned by Pou Chen (an FLA Participating Supplier and supplier of adidas), who expressed support of the FOA Protocol, recognizing that it has supported the unions of the signatory brands' contract facilities, while unions in suppliers of brands who are not signatories to the protocol continue to struggle to uphold their freedom of association rights. FLA recognized adidas' leadership role in supporting the FOA protocol as a strength of their SEA program, specifically in Indonesia.



Materials from the union SPN at PT Nickomas, an adidas supplier and production site of Pou Chen, an FLA Participating Supplier. The materials include the Freedom of Association Protocol, collective bargaining agreement, membership form, and various union newsletters.

Americas (26% of adidas' Supply Chain)

adidas has been an instrumental brand in the formation of the Americas Group, a multi-stakeholder forum of brands that source or manufacture in the Americas Region and civil society organizations, created after the end of the Multi-Fiber Agreement in 2004. The Americas Group has mainly focused on freedom of association issues, with a particular focus on Mexico and protection contracts. In 2014, the Central American Women's Network in Support of Maquila Workers (REDCAM) launched a [women's labor rights agenda](#) for Maquila workers in the region; this agenda informed the Americas Group's objectives on labor issues to be addressed, such as reviewing the issues on childcare facilities and occupational health and safety.

adidas participates on the coordinating committee of the Americas Group. Together with New Balance, Gap, Dallas Cowboys Merchandising, Levis, and the Maquila Solidarity Network. FLA interviewed the Coordinator of the Maquila Solidarity Network, who recognized adidas' participant and leadership role in the Coordinating Committee of the Americas Group and engagement with local unions and organizations in the Americas that have raised labor concerns or violations to adidas. adidas is also active on the Mexico and Central America Coordinating Committees of the Americas Group. The Mexico Coordinating Committee (formerly known as the Mexico Working Group) developed [guidance](#) on identifying protection contracts. adidas participated in a training for auditors on protection contracts and local laws in Mexico. This training was conducted by VeLaR (an audit service provider) and supported by a legal expert chosen by the Maquila Solidarity Network, and observed by the FLA's former Regional Manager, Americas for [PVH's 2016 Reaccreditation](#).

East Asia (26% of adidas' Supply Chain)

In China, adidas partnered with the consulting firm, Timeline, to enhance communication and negotiation skills of union and worker committee representatives with factory management. While Timeline is not considered to be civil society, the engagement with union and worker representatives reflect the support that NGOs in China have called for concerning the lack of engagement. Managers and workers participated in trainings that led to the development of a professional negotiations team to facilitate dialogue and negotiations with the workers. A dialogue framework was also established, which adidas plans to use with more China suppliers. adidas piloted this program in two facilities in China, and are in the start-up phase to implement this program in three other suppliers throughout 2017 and 2018.

EMEA (9% of adidas' Supply Chain)

In Turkey, adidas has championed engaging with the FLA, the United Nations High Commissioner for Refugees (UNHCR), and the Turkish Ministry of Labor and Social Security to advocate for rights for Syrian refugees. adidas financially supported the development of informational



The SEA Director, EMEA presenting the posters developed to address child labor in cotton farms in Turkey at the February 2017 FLA Board Meeting.

materials about labor rights for Syrian refugees in Turkey and provided some of the content for the development of these materials, which provided an overview of labor rights for Syrian refugees in English, Turkish, and Arabic. In December 2016, adidas participated in a roundtable hosted by the [FLA and UNHCR](#) to discuss the challenges in integrating Syrian refugees into the labor market. Additionally, adidas has worked with its suppliers to address the challenges in hiring Syrian refugees, by providing introductions to organizations like the [International Middle East Peace Research Center](#) (IMPR), who can support the recruitment of hiring refugees. adidas has also supported efforts to address child labor in Turkey, collaborating with the Turkish Ministry of Labor and Social Security and FLA through funding of the development of materials educating the public on the issues of child labor and employment of young workers in Turkey.

South Asia (7% of adidas' Supply Chain)

Bangladesh

- ❖ Engaging with Workers through PHULKI: Since 2011, adidas has been working with [PHULKI](#), a non-profit organization, to gather information from workers on the conditions of the factories in Bangladesh. On a monthly basis, PHULKI representatives conduct worker interviews on behalf of adidas and share the results with the SEA Team. If there are issues that require further investigation, adidas follows up with factory management and PHULKI updates adidas on remediation. PHULKI provides support to the SEA Staff in gathering information, and supports the development of an action plan to address issues found in the worker interviews.
- ❖ Further Education Opportunities for Workers: In partnership with Asia University for Women in Bangladesh, adidas factories in Bangladesh have participated in a program where workers are supported to seek further education at the university and students from the university are able to participate in an internship program with the factories. In this program, workers receive a salary from the factory while they are attending classes.

Pakistan

- ❖ Addressing Child Labor with SUDHAAR: In the early 2000s, adidas began to work with CSO SUDHAAR to increase enrollment of children into the school systems. This program lasted from 2002-2014; 25,000-28,000 students were enrolled into schools across Pakistan and SUDHAAR worked with the local school councils to address capacity. adidas was able to see the development of new schools throughout Pakistan.
- ❖ Women Empowerment with Baiderie: After completing the SUDHAAR program, adidas started to focus on women empowerment in the workplace through CSO Baiderie, so that more women would feel comfortable working in factories in Pakistan. Historically, women hand stitched soccer balls in stitching centers. However, since handstitched soccer balls have been replaced with machine-stitched soccer balls, this program provides entrepreneurship, financial planning, and training for women working in factories. Baiderie also facilitates visits for the woman's family to see the working environment if a woman chooses to pursue factory work. adidas plans to conduct this program over the next 3 years and Baiderie will conduct an impact assessment. FLA has seen this program's implementation through the assessments conducted at Forward Sports, a soccer ball supplier for adidas and an FLA Participating Supplier in Pakistan. Forward Sports has provided a separate area for women to work at the

factory and made various revisions to their practices and staffing to ensure the women are safe and comfortable.

Union Engagement (Third Party Complaints, Safeguard Investigations, and High-Profile Cases)

Since the adidas Group Reaccreditation in 2008, adidas has been involved in 10 FLA Third Party Complaints and five Safeguard Investigations. Most of the complaints and investigations have been on violations of freedom of association. The reports are available on the [FLA's website](#) and summarized in Appendix B has a high-level summary of all FLA Third Party Complaints and Independent Investigations adidas has been in involved with since 2008.

In addition to the FLA's Third Party Complaint process, adidas has its own complaint channel process, that can be used to report violations in the supply chain. This channel and instructions in 10 different languages are included on the adidas [Human Rights webpage](#). On an annual basis, adidas reports the status of complaints through this channel, indicating the region and the types of organizations that have reported the complaints. For 2016, adidas had 12 complaints from local and/or international NGOs or unions, including some FLA Third Party Complaints. adidas' public reporting includes complaints submitted to the FLA and indicates if the FLA Third Party Complaint was of a supplier of an adidas licensee.

Through both complaint mechanisms, adidas has addressed freedom of association violation allegations at the factory-level through investigation, buyer collaboration, mediation, training, corrective action plans, and verification of remediation. Because of the complexity and personal dynamics in violations of freedom of association, not all freedom of association violations can be resolved through a "one-size-fits-all" approach; however, the remediation conducted to address the Third Party Complaints illustrate adidas' commitment to address allegations of violations through a variety of methods to uphold workers' rights to freedom of association.

Government Advocacy

In addition to adidas' engagement with the Turkish Ministry of Labor, FLA also recognizes the adidas' advocacy with governments in supporting the improvement of working conditions. adidas was a signatory on the FLA's letter to the [Ministry of Labor of Myanmar](#) in 2015 to address minimum wage exemption for Myanmar garment workers. Additionally, in 2015, adidas supported a letter to the [Republic of Georgia's Ministry of Labor](#) to support the setting of a fair minimum wage. adidas also was a signatory on the FLA's 2014 letter to the [Deputy Prime Minister of Cambodia](#) to support national wage-setting negotiations.

Takeaways from FLA Third Party Complaints and Safeguards from 2008-2017



14 out of 15 Complaints or Investigations are Closed

9 cases addressed Freedom of Association violations



67% took place in the Central America

8 cases reinstated unionized workers



10 out of 15 cases were in collaboration with other companies

RESPONSIBLE PURCHASING PRACTICES⁵

adidas' Responsible Sourcing & Purchasing Policy and Procedures

adidas has a comprehensive system of procedures to ensure responsible sourcing and purchasing practices are implemented. These policies and procedures include: Lead Time, Management of Purchase Order Confirmation, Standard Minute Apparel Costing, Minimums, Global Late Add Policy, and Business Volume Accuracy and Production Forecast Accuracy Policy. In 2017, adidas' executive management endorsed the Responsible Sourcing & Purchasing Policy to incorporate all internal policies and procedures related to purchasing practice; and developed a roadmap to implement this umbrella policy. The roadmap articulates the themes of the five Principle 8 Benchmarks: Policy, Training, Accountability, Dialogue, and Supplier Motivation.

Responsible Purchasing Practices Training

Since 2015, adidas has been training its licensees on Responsible Sourcing & Purchasing Practices. The SEA Team prioritized training of licensees to support the development of their own responsible purchasing practices programs. The SEA Team developed two forms of training on responsible purchasing practices for operational and executive level staff of their licensees. The executive-level training includes an emphasis on the importance of top management commitment and facilitation to implement improvements to the licensee's purchasing practices to uphold adidas' commitment to responsible sourcing and purchasing practices.



A worker at a factory in Indonesia inspects the adidas Samba shoe.

In 2016 and 2017, the SEA Team developed a training program for executive management and country-level Liaison Offices to lay the groundwork of the umbrella policy that would be implemented in 2017. This training had been provided to some of the Liaison Offices; and the SEA Team will continue to provide this training to the rest of the Liaison Offices to communicate the umbrella policy. FLA verified at the Jakarta Liaison Office that representatives from the apparel and footwear teams attended the training and provided briefings to the rest of their teams on the training content. FLA encourages adidas to continue to train all relevant sourcing, planning, and purchasing staff on the Responsible Sourcing & Purchasing umbrella policy.

⁵ Principle 8 "Responsible Purchasing Practices" articulates how a company develops and implements responsible purchasing practices, that mitigate negative working conditions, informed by the company's social compliance program.

Accountability for Implementation of Responsible Purchasing Practices

The Global Operations Team manages the planning for adidas purchasing, and their Liaison Offices manage the supplier relationships for purchase order (PO) placement and completion. The Global Operations HQ teams manage planning, forecasting, and costing, and works with the country-level Liaison Office and suppliers on development. The Liaison Offices communicate directly with the supplier to manage quality, production, manufacturing excellence, and works closely with the SEA Team on issues that occur at the factory-level. adidas staff are held accountable to implement the policies and procedures through their annual performance reviews, which impact staff compensation.

The Global Operations Team is working to improve its forecast accuracy with suppliers to address market fluctuations. They have developed a forecast analysis report that is reviewed on a monthly basis. Where forecasts fluctuations may result in reductions in orders that might lead to retrenchment, the Global Operations and country-level Liaison Offices will strive to provide additional programs to the factories to mitigate retrenchment. Additionally, adidas has a strict procedure on accepting late adds or changes to a product program or purchase order; these procedures include specific timelines for accepting late adds or changes, an approval process, and standards on delays of late add purchase order completion. Lastly, adidas has a comprehensive policy on apparel minimums that can be accepted from retail buyers. This minimum policy directly relates to the suppliers' operational minimums that can impact the supplier's operations, production lines, and costing. If purchase orders under the minimum policy must be accepted, adidas includes an upcharge that is usually absorbed by adidas, resulting in a lower profit margin for adidas. FLA interviewed Global Operations and Costing staff at the Portland headquarters and Jakarta Liaison Office staff to verify the purchasing processes in place at adidas for all lines and collections.

Forecasts: The Global Planning Team receives the forecasts and orders, which are then communicated to the Liaison Office Operations staff and suppliers. If there are delays in orders or the possibility of inaccurate forecasts, the Liaison Office Operations Staff will communicate with the supplier and the Global Planning Team to address the issues. For materials sourced from Asia, adidas' Taiwan Liaison Office works with Tier 2 material suppliers to provide forecasts and orders. If materials are developed for a forecasted order that is not received, the Taiwan Liaison Office Operations staff will address how to use the greige goods for future orders. If unplanned orders come in, the Liaison Office Operations staff will ask for the root causes from Global Planning on why the order was not forecasted or changed.

Capacity Planning: In Asia for footwear and apparel, capacity planning is initially developed on an 8-hour per day work week, with a maximum of 48 hours per week. As forecasts and orders come in, the Liaison Office Operations staff will adjust the planning appropriately to be able to forecast overtime or under-capacity planning impacts. If the planning needs to be adjusted to 10 hours per day, the Liaison Office Operations staff and supplier will discuss options to mitigate excessive overtime. If overtime is required, the supplier must provide an overtime request to the Liaison Office Operations staff. This request is informally communicated to the SEA Team through email or verbal communication. FLA interviewed the

Jakarta Liaison Office Operations staff to verify this process, and recommended that adidas formalize the communication channels to the SEA Team on cases of overtime due to changes in planning.

Dialogue & Engagement to Implement Responsible Purchasing Practices in adidas' Supply Chain

FLA interviewed the SEA Team, Global Operations, and Liaison Office Operations staff to verify how impact of purchasing practices are discussed within adidas during the Headquarter and Jakarta Liaison Office Visit. Historically, discussion on purchasing practices and the impacts on supply chain have been discussed within the SEA Team and the country level Liaison Offices. The Liaison Offices would also communicate to the Global Operations team if issues at the factory-level that are being reviewed by the SEA Team, would impact planning, product development, production, etc. In Asia, the Global Operations team has started to have more direct contact with suppliers on product development, which the Jakarta Liaison Office Operations staff supported by providing training to the suppliers on how to communicate with the Global Operations Teams. Because Liaison Office Operations staff are in close communication and visit the suppliers regularly, if Liaison Office Operations staff hear of labor issues, they will report the possibility of an arising labor issue to the SEA Regional Team, so the SEA Team can swiftly address the issue. Additionally, at the senior management and Executive Board of Directors levels, there are broader discussions on how to incorporate sustainability into purchasing practices. For example, the Global Head of Social & Environmental Affairs is in conversation with the adidas Global Head of Costing about fair compensation and prevailing wage.

adidas has software systems in place to ensure deadlines are communicated and met. The Fair Factories Clearinghouse (FFC) is constantly updated to maintain a current factory list; Global Operations has access to the FFC and is responsible for inputting and deactivating factories. adidas has a Product Lifecycle Management (PLM) system to manage its tech packs, bill of materials, and costing; the Trade Card system manages the production processes. As per adidas policy, staff are accountable for checking and maintaining the information in these systems in a timely manner. Planning calendars are provided to suppliers for purchase orders, and if changes occur to the product program, adidas has a Change Rules policy that determine the adjustment of calendar timelines for the supplier and that it's communicated to the supplier and relevant staff.

Costing: adidas implemented a Standard Minute Value (SMV) Costing system with its apparel suppliers in Asia and has started to do the same with its apparel suppliers in the Americas. This costing system allows for further transparency in the costs of materials, labor, and overhead to produce adidas' apparel products. To transition to the SMV costing, not only did factory management require training on this system, but supervisors and workers required training to adhere to the calculations of efficiency and cost that the SMV system depends on. For example, SMV costing has a standard rate of movement, that also factors in breaks and rest time for workers, so it's important for supervisors and workers to understand the movement rate in order to implement SMV costing. To implement the costing system, suppliers had to have the capacity, machinery, and training to implement the system. The

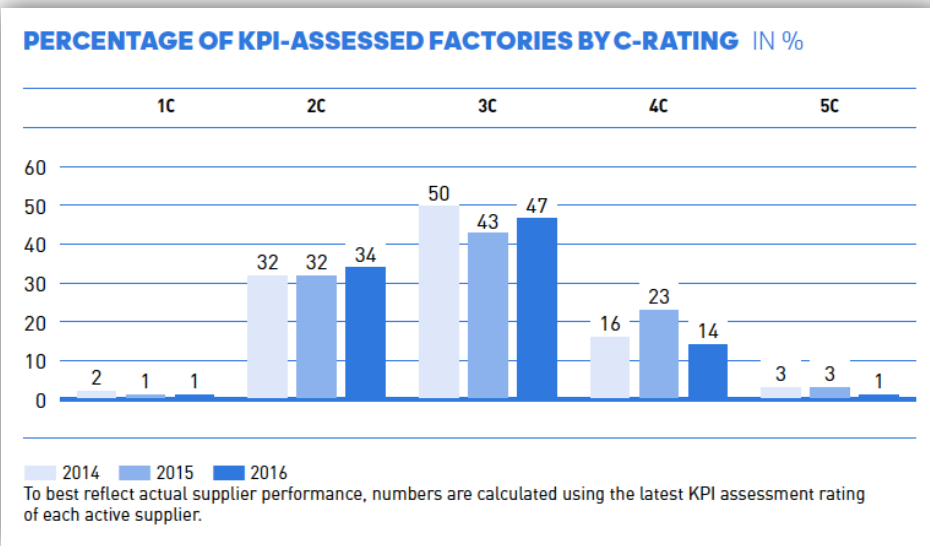
costing system allows for adidas and the supplier to agree on efficiency rates, track the platform data, and strive towards sustainable costs for products. For footwear suppliers and suppliers that are not able to implement the costing system, costing is based on historical data.

For apparel in Asia, suppliers and adidas have agreed upon a profit margin that is the same for all suppliers; costing is agreed upon 1 month prior to the start of the season's production. The Creation Centers will develop a "predictive cost" that is not shared with the suppliers, but is reviewed when the supplier provides the "pre-cost." Costing negotiations are done in the PLM System, where suppliers are able to provide comments on how to change the product to reduce the costs.

Evaluating & Incentivizing Suppliers to Produce Responsibly

The Liaison Office Operations staff maintain scorecards for apparel and footwear suppliers, which review supplier performance in availability or capacity, cost, quality, and sustainability. For the social compliance part for sustainability, the SEA Team evaluates suppliers using their Compliance Key Performance Indicator (C-KPI) tool, which reviews the supplier's management systems, communication and training, compliance and audit performance, and leadership in collecting worker feedback and remediation.

From the C-KPI Tool, suppliers receive a rating of 1C to 5C, 5C being the highest ranking, based on their audit performance.



From adidas 2016 Sustainability Report, the percent of suppliers in each C-KPI Assessed supplier.

adidas' supplier ratings and distribution are reported publically in their annual [sustainability reports](#). In 2015, adidas implemented a strategy to engage with suppliers to move up from 1C or the business relationship with adidas would be at risk of termination. In 2016, adidas reported only 1% of its suppliers were in the 1C category, a total of 7 suppliers. When a supplier receives a 5C

rating, they are eligible to pursue Sustainability Leadership, which reduces the number of audits suppliers receive. However, the 5C rating is challenging for suppliers to maintain; in 2016, adidas reported that 1% of its suppliers are in the 5C category, which is 3 total suppliers. Additionally, for suppliers in Asia that receive a 1C to 2C rating, a third-party will conduct the supplier audits until the supplier can improve its performance, instead of the SEA Team. The engagement from the SEA Team

during the audit process is considered an incentive that can motivate suppliers to improve their social compliance performance to be remain an adidas supplier. It is noted that suppliers will continue to receive support from the advisory SEA staff.

In general, high-performing suppliers receive a long-term business commitment from adidas, which is also supported when suppliers uphold adidas' quality standards. For strategic suppliers in Asia, adidas commits to book at least 85% of the projected capacity. This commitment is important since in Asia, adidas has numerous suppliers where adidas will have 100% production in a facility. Additionally, suppliers that improve their working conditions may receive "most improved" SEA awards, given by the Senior Liaison Office Management on an annual basis.

adidas also rates its licensees using its SEA Report Card which includes supplier ratings, the licensee's compliance program, and responsible purchasing practices. For licensees that receive a score higher than 80% on this report card, they can pursue pre-authorization towards Sustainability Leadership. Through the Sustainability Leadership Program, the licensees receive training on how to manage the social compliance program up to SEA standards and the licensee's monitoring program is managed by the licensee, instead of receiving adidas SEA audits through a third-party.



FLA's Program Manager, Business Accountability and Regional Manager, Southeast Asia interview adidas' Operations and SEA staff at the Jakarta Liaison Office on responsible purchasing practices.

REMEDIATION, INNOVATION, AND COLLABORATION⁶

Remediation Verification of SCI Assessment Noncompliances

In 2017, FLA conducted four SCI Verification (SCIV) Assessments to verify the remediation progress of previously SCI-assessed adidas suppliers. All original SCI assessments took place as part of the 2014 or 2015 SCI Annual Assessment Cycles. FLA selected the four SCIV Assessments based on geographical distribution and to review shared actions in remediation with other FLA companies. The below table provides further details of the original SCI and Verification assessments. FLA also reviewed the corrective action plans (CAP) and remediation updates submitted by adidas and noted the diligence in how adidas provides timely remediation plans and updates to the FLA. Adidas has been consistent in providing comprehensive remediation plans, timely remediation updates, and appropriate exit language. The below table provides further details about the location of the SCI Assessment and if it was a shared assessment.

Factory	Country	# of Years producing with adidas	Shared Original SCI	Shared SCIV
Factory A	Guatemala	15 years	Yes (GTM Sportswear ⁷)	No
Factory B	Indonesia	33 years	Yes (Nike & New Balance ⁸)	Yes (Nike)
Factory C	Vietnam	10 years	Yes (Under Armour)	Yes (Under Armour)
Factory D	Cambodia	19 years	No	No

At the time of this report, the SCIV Assessment reports for Factories B, C, and D were still under review⁹; but note that all reports showed improvement in working conditions. For Factory A in Guatemala, FLA found that the majority (about 70%) of findings were remediated. For example, a finding on nursing workers not having a paid break to breastfeed or pump was found fully remediated immediately. Additionally, the SCIV found that the factory had developed policies and procedures on Industrial Relations and mechanisms for resolving labor disputes. FLA noted that there is still improvement to be made on findings regarding the worker committee. While the committee was established, worker interviews revealed that they were unaware of this committee and did not know that it could serve as a grievance mechanism or communication channel. There is also improvement to be made in implementing the Employment Relationship standards in the policy and procedures for personnel development.

⁶ Principle 7 "Timely and Preventative Remediation" articulates the expectation for companies to work with its suppliers to sustainably remediate noncompliances and improve working conditions.

⁷ GTM Sportswear was acquired by Hanesbrands, Inc. in 2016 and has since exited this factory.

⁸ New Balance left this factory in 2015.

⁹ Because this SCIV Assessment Report was still under review at the time of drafting this report, the remediation status results have not been disclosed. FLA will publish the full results of the SCIV Assessment Report once the Corrective Action Plan has been finalized. This report was completed in September 2017.

For all SCIV Assessments, new findings were identified; adidas and the collaborating companies will work with the factories to develop a corrective action plan for these new findings, along with addressing original findings that were found not be fully remediated. FLA will publish these reports in full on its website, once the corrective action plans are finalized. FLA recognizes the improvements made at the factories since the last SCI assessment; and FLA encourages adidas to continue to work with its suppliers to further improve working conditions.



One of the adidas factories that received an SCI Verification Assessment in 2017.

Collaboration with Other Brands

adidas is known for its collaboration in remediation, particularly through the FLA's Third Party Complaint process and civil society engagement. For suppliers that have high-profile issues, adidas will coordinate with the other buyers in the supplier to support joint audits and remediation plans. adidas has been working with PUMA, New Balance, Under Armour, Dallas Cowboys Merchandising, Gear For Sports, and Mountain Equipment Co-Op to address various labor violations in suppliers in the Americas and the EMEA regions. FLA reviewed various audit reports and remediation plans where adidas collaborated with the brands named above.

In 2015, adidas and PUMA piloted an effort to systematically collaborate on audits in the EMEA Region, which started with the brands shadowing each other's audits to understand the different auditing approaches. adidas and PUMA conducted a standards comparison, adopted the highest of those standards, and aligned their zero tolerance issues. At the February 2017 FLA Board Meeting in Washington, D.C., adidas and PUMA presented to the FLA membership its audit sharing pilot, articulating the benefits, such as reduced-audit costs, reduced audit fatigue for the supplier, and more capacity to invest in training and remediation to address labor violations in their shared suppliers. adidas and PUMA also found that they benefitted in their pre-sourcing assessment process, by being able to accept new suppliers that had been accepted by the other brand, allowing for a faster supplier-approval process for the brands' sourcing departments. In the Americas, adidas has also collaborated with other brands to share audits and address high-profile cases, especially to address Third Party Complaints.

FLA noted during the Jakarta Liaison Office visit that brand collaboration is not as prevalent in adidas' Asia suppliers. Some of the lack of collaboration can be attributed to the different characteristics of Asia suppliers; often there are large supplier compounds of multiple facility buildings. One facility

building may be 100% adidas production, and adidas' SEA team will focus their assessments and remediation in that building and the specific management team, making it difficult for adidas to collaborate with other brands who may be in separate facility buildings with different management teams. However, there are some multi-buyer factories in Asia, and adidas provides all assessment reports on the FFC platform as shared assessments that other brands can have access to. FLA encourages adidas to continue explore ways to collaborate with brands in suppliers in Asia, where appropriate.

Human Rights Framework for Fair Compensation

adidas has made a [public commitment](#) to make progress towards fair compensation for the workers in their supply chain and adopted a human rights framework, "Protect, Respect, and Promote," largely inspired by the UN Guiding Principles on Business and Human Rights. "Respect, Remedy, and Promote" is adidas' framework for their approach to addressing fair wages. "Respect" highlights adidas' commitment to ensure their own business practices do not negatively impact the full and timely payment to workers of their legally mandated compensation and benefits. "Remedy" addresses adidas' commitment to ensure legal compliance of compensation through their Workplace Standards and verification that suppliers are implementing these standards. Where violations in wages are identified, adidas works with its supplier to remediate; and where suppliers fail to remediate, adidas will terminate the business relationship. Where higher wages are set, adidas adjusts its purchase prices to reflect the increase of labor costs for adidas production. "Promote" is adidas' commitment to facilitate social dialogue including collective bargaining, to partner with experts who can provide technical insights about wage influencers, and to measure and benchmark wage influencers that achieve fair compensation. As part of adidas' commitment to collaboration and information sharing, senior leadership from the SEA team shared this compensation framework at the FLA board meeting in June of 2017.

As early as 2010, adidas began to work with the FLA and the [Fair Wage Network](#), in supporting factory-level compensation data collection and analysis and worker surveys to understand the issues of fair compensation. In 2011, the FLA and Fair Wage Network conducted worker surveys to understand compensation issues in 3 adidas factories in the Philippines. Results of these surveys revealed that workers were not aware of benefits or policies on wages, claimed by factory management; and indicated that there were gaps in communication and training on the compensation policies to workers and implementation of functioning worker-management communication channels.

In 2013, adidas continued its work with Fair Wage Network, conducting Fair Wage assessments at two suppliers in the Philippines. The assessments reviewed the [12 Fair Wage Dimensions](#)¹⁰. The assessments found "fair" ratings for some dimensions, such as Payment of Wages, Minimum Wages, Prevailing Wage, and Wage Disparity. For example, Fair Wage Network found that workers generally received their wages on time, found no discrimination in how wages were determined, and were

¹⁰ The 12 Fair Wage Dimension include: Payment of Wages; Living Wage; Minimum Wage; Prevailing Wage; Payment of Working Hours; Pay Systems and Wage Structures; Social Dialogue and Communication; Wage disparity; Real Wages; Wage Share; Wage Costs; and Wages, Intensity at Work, Technical, and Human Capital.

receiving the prevailing wage of that region and sector. For wage dimensions that received an “unfair, relatively unfair, or relatively fair” rating, the factory and Fair Wage Network developed a remediation plan. Due to circumstances at the FLA, the remediation phase was not completed with Fair Wage Network; however, the factories pursued remediation and updated adidas accordingly. For example, one of the factories received an “unfair” rating for Pay Systems and Wage Structures based on a finding that the attendance bonus was difficult for workers to achieve because it was based on a quarterly basis. Starting in 2014, the factory changed to a monthly attendance bonus and saw a dramatic increase of workers who could achieve this bonus. Additionally, to address the “unfair” ratings of Wage Share and Wage Costs, the factory organized an employee credit cooperative (co-op) so that workers could earn extra income through their remuneration through the factory in dividends, profit sharing, patronage refunds, and rice-giveaways. The co-op started with 25 members in 2012; by 2017, it had 1,619 members, about 38% of the workforce of this supplier. Additionally, adidas supported the World Council of Credit Unions, Inc. and the Global Alliance for Workers and Communities in developing [guidance](#) for factory owners and worker to create cooperatives that could benefit factory workers. This guidance includes the different types of co-ops and how to start a co-op, and is provided to adidas suppliers who are interested in starting child care, credit, health, or other worker owned co-ops. FLA considers adidas’ support of suppliers to develop co-ops as a best practice in exploring different ways to ensure workers are able to have some discretionary income.

In 2015, FLA began to implement its [Fair Compensation Work Plan](#), starting with compensation data collection throughout the 2015 SCI Cycle. adidas was a key stakeholder in providing the FLA feedback on the work plan and the methods of data collection, and will continue to provide feedback through its roles on the FLA’s Monitoring Committee and Practitioners Working Group. adidas also supported Patagonia’s work with S-Lab at MIT-Sloan School of Business by providing some of the compensation data adidas has collected. In 2016, adidas conducted eight pilots to collect compensation data at the factory-level using the FLA’s methodology and found that the collection methodology requires further training of brands and suppliers to understand the methodology and properly collect the data. For 2017, adidas is conducting further compensation data collection pilots with all suppliers in Honduras, Cambodia, and Ukraine. Throughout 2017 the Senior Manager of Field Operations, Americas has also been actively involved in the FLA’s Practitioners Working Group to improve FLA’s wage data collection tool; this involvement combined with on-the-ground testing has led to improvements in the FLA’s tool and methodology.

adidas’ commitment to fair wages was tested when [China Labor Watch reported](#) that workers producing the YEEZY BOOST sneakers were not being fairly compensated. However, through adidas’ work in compensation data collection, adidas was able to [respond](#) to these allegations by providing further insight on compensation systems, bonus systems, and in-kind benefits workers at this facility received. adidas also reviewed the allegations of uncompensated morning meetings and addressed this issue with the factory management. adidas also reviewed their monitoring protocol to understand why these issues were not found during the worker interview process, and refined its approach to better collect this type of information during the worker interviews of the adidas audit.

Beyond Tier 1 & Modern Slavery

As part of adidas' factory list [disclosure](#), Tier 2 wet process suppliers are also disclosed by adidas on a regular basis. adidas has been conducting audits at Tier 2 in a staggered approach to take into account the capacity of Tier 2 suppliers and the adidas SEA Team. In the Americas region, adidas conducted social compliance audits at the wet process suppliers, finding issues like double books, excessive overtime, and pregnancy testing. In Asia, adidas conducted environmental audits at the wet process suppliers. In 2017, adidas traded the approaches, in which wet process suppliers in the Americas have received environmental audits and strategic suppliers in Asia have received social compliance audits. adidas sent notification to its strategic Tier 2 suppliers in Asia in April of 2017, stressing that noncompliances found during the initial assessment will be considered as "continuous improvement" and that the audit does not have a pass or fail requirement. However, if zero tolerance issues are found, the business relationship may be affected. FLA verified the implementation of assessments at Tier 2 suppliers in Asia. The Jakarta Liaison Office SEA Team reported that they found a lack of local regulations and implementation of legal standards; lack of legal minimum wages, social insurance, overtime, and inaccurate records due to a lack of systems to maintain accurate records.

As early as [2013](#), adidas began implementing an enhanced approach to address modern slavery, an issue with growing transparency through media attention and legislation like the United Kingdom's Modern Slavery Act. From 2014 to 2015, adidas developed a strategy to address modern slavery within its supply chain that was reviewed by the ILO and Mekong Club. At Tier 2, adidas is engaging with their suppliers in assessments and in training on modern slavery. For Tier 3, adidas has yet to develop a training approach, but is working to map its supply chain to understand risks of the supply chain. adidas started to develop a mapping of raw materials and stakeholders that could provide further insight to these raw material industries. adidas had already started mapping its cotton supply chain through the [Better Cotton Initiative](#), who also address environmental and social issues at the cotton farm-level. adidas started with its leather supply chain, by being part of the [Leather Working Group](#) and mapping the stakeholders through the leather supply chain from tanneries to slaughterhouses. adidas engaged with meat processing companies, because of the leverage meat processors have on the conditions for the animal. In 2017, adidas started to work through its rubber supply chain, focusing on Brazil and Paraguay and engaging with rubber-dependent industries like tire manufacturing. In 2016, adidas was ranked highest by [KnowTheChain](#) out of 20 apparel companies for their transparency of efforts to eradicate forced labor in their supply chains. FLA commends adidas' work beyond Tier 1 and in modern slavery as a strength of the program, noting that this work goes beyond the FLA's scope of affiliation and the Principles.



The adidas Superstar sneaker being reviewed for quality by workers in a factory in Indonesia.

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of adidas' labor compliance program is intended to help inform the decision of the FLA Board of Directors on whether to reaccredit the affiliate's program.

The FLA staff's conclusion is that since affiliation as a Participating Company, adidas has developed an increasingly comprehensive labor compliance program that aligns with FLA standards, benchmarks, and protocols. Reaccreditation is the FLA's continuing assessment of an affiliate's labor compliance program towards ensuring respectful and ethical treatment of workers. The FLA recognizes that no labor compliance program is perfect; the notion of continuous improvement means that there will be instances when a specific principle or benchmark is not met, yet such occurrence does not call into question the integrity of an affiliate's entire program. The FLA will continue to provide programmatic recommendations to further an affiliate's labor compliance efforts in support of the FLA's mission to protect workers' rights and ensure decent working conditions. FLA staff recommends to the FLA Board of Directors the reaccreditation of adidas' labor compliance program.

The assessment identified certain areas in which adidas' labor compliance program has been strong, and also areas to which improvements are possible.

Strengths of adidas' labor compliance program include:

- 1) The implementation of various supplier training and advisory programs to support the development of supplier social compliance programs to improve working conditions;
- 2) The leadership, recognized by various civil society organizations, to coordinate brand efforts to address labor violations and concerns;
- 3) Application of advancement in mobile technology to implement a SMS and application-based platform for workers to submit grievances and suppliers to manage their grievance data;
- 4) Collaboration with other brands to address labor violations in shared suppliers;
- 5) Incorporation of working hours based on a 48-hour work week into capacity planning for purchase orders;
- 6) Pioneering and piloting various methods to address fair compensation for workers; and
- 7) Program development and implementation of social compliance standards, assessments, and mapping beyond the Tier 1 supply chain, in effort to address labor violations throughout the adidas supply chain.

Suggestions for strengthening adidas' labor compliance program include:

- 1) Continue to train and implement the adidas Responsible Sourcing & Purchasing Policy and training to all relevant staff and engage with suppliers for feedback on adidas' implementation of responsible purchasing practices;
- 2) Continue to work with Tier 1 Suppliers in addressing labor violations in their supply chain; and
- 3) While beyond the scope of FLA obligations, continue to develop and implement programs to address labor violations beyond adidas' Tier 1 supply chain.

APPENDIX A: ADIDAS GROUP WORKPLACE STANDARDS



GLOBAL SOCIAL AND ENVIRONMENTAL AFFAIRS

adidas Workplace Standards

PERFORMANCE PASSION INTEGRITY DIVERSITY

These are the core values found in sport. Sport is the soul of adidas. 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 adidas *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 workplaces 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 and must adopt and follow practices which safeguard human rights, workers' employment rights, safety and the environment.

HUMAN RIGHTS

adidas is committed to respecting human rights and will refrain from any activity, or entering into relations with any entity, which supports, solicits or encourages others to abuse human rights. adidas expects our business partners to do the same, and where there is any perceived risk of a violation of human rights to duly notify us of this and of the steps being taken to avoid or mitigate such a breach and, where this is not possible, for the business partner to provide for the remediation of the adverse

human rights impact where they have caused or contributed to this. For the purposes of these Workplace Standards, human rights are a set of rights which recognise the inherent dignity, freedom and equality of all human beings, as expressed in the United Nation's International Bill of Human Rights and in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

EMPLOYMENT STANDARDS

FORCED LABOUR

Business partners must not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise, or permit the trafficking in persons for the purposes of forced labour. 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 fifteen (15) years old, or less than the age for completing compulsory education in the country of manufacture where such age is higher than fifteen (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, BENEFITS & COMPENSATION

All legal requirements relating to wages and benefits must be met. Wages must equal or exceed the minimum wage required by law or the prevailing industry wage, whichever is higher. 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.

Workers have the right to compensation for a regular work week that is sufficient to meet workers' basic needs and provide some discretionary income. Where compensation does not meet workers' basic needs and provide some discretionary income, business partners must take appropriate actions to progressively raise employee compensation and living standards through improved wage systems, benefits, welfare programmes and other services.

WORKING HOURS

Employees must not be required, except in extraordinary circumstances, to work more than sixty (60) hours per week including overtime or the local legal requirement, whichever is less. A regular work week must not exceed 48 hours, all overtime work must be consensual and not requested on a regular basis. Employees must be allowed at least twenty four (24) consecutive hours rest within every seven-day period, and must receive paid annual leave.

FREEDOM OF ASSOCIATION & 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 & SAFETY

A safe and hygienic working environment must be provided, and occupational health and safety practices which 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 which 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.

January 2016

APPENDIX B: THIRD PARTY COMPLAINT AND SAFEGUARDS SUMMARY

Supplier	Year	Country	Supplier Relationship	Other Brands	Complaint or Investigation Request Submitted By ¹	Summary
Chi Fung	2010	El Salvador	Direct	MJ Soffe (Delta Apparel)	Workers at Chi Fung	The companies & supplier implemented a corrective action plan to address the allegations of violations of overtime work, verbal harassment, and unkempt bathrooms.
PT Glostar²	2012	Indonesia	Direct	Converse (Nike), VF Corporation	Nike	The companies & supplier (Pou Chen) developed and implemented a corrective action plan to address findings on harassment and abuse.
Textiles Opico³	2013	El Salvador	Licensee	Dick's Sporting Goods (adidas licensee)	Sindicato de Trabajadoras, Trabajadores, Sastres, Costureras y Similares (SITRASACOSI)	Unionized workers were reinstated and the union was recognized. The companies & supplier worked with an ombudsperson to facilitate dialogue between factory management and the union.
JoeAnne Dominicana	2013	Dominican Republic	Licensee	Dick's Sporting Goods (adidas licensee), Fruit of the Loom,	Federación Dominicana de Trabajadores de Zonas Francas,	FLA investigated the allegations of dismissed workers who had attended meetings to organize a union. These workers were reinstated and received back payment from

¹ Complaints submitted by workers, unions, or another NGO are considered Third Party Complaints. Investigation requests submitted by adidas or another brand are considered safeguard investigations. More on FLA's safeguard mechanisms can be found [here](#).

² Owned by Pou Chen, an FLA Participating Supplier

³ Accredited FLA Participating Supplier

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				Franklin Sports	Industrias Diversas y de Servicios (FEDOTRAZONAS)	the time of their dismissal. The companies and supplier also worked to improve the factory's practices on freedom of association and nondiscrimination.
New Holland	2014	Nicaragua	Direct	Under Armour	Sindicato Trabajadores al Poder de la Fábrica New Holland, affiliated with the Sandinista Central Trade Union CST	After mediation and negotiation, the dismissed unionized worker was reinstated, provided they could provide a health certificate, and New Holland committed to dispute resolution training.
Paragon Apparel	2014	India	Direct	None	adidas	An unannounced audit was conducted by Association of Stimulating Know-How (ASK) on the behalf of the FLA to assess progress of remediating labor violations at the factory. ASK found remediation of some H&S findings; adidas and Paragon worked to develop and implement a further corrective action plan to address excessive overtime issues and other H&S issues.
Petralex	2015	El Salvador	Licensee	Box Seat Clothing, Dallas Cowboys Merchandising, Gear for Sports (under license from Under	FITH (Federación Independiente de Trabajadores de Honduras) on the behalf of its affiliated union Sindicato de	The unionized workers who were dismissed were reinstated and started a dialogue process with factory management, the local union, and the federation. The reinstated workers also received some back payment of lost wages since their dismissal.

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				Armour), Outerstuff (under license from adidas), and VF Corporation	Trabajadores de la Empresa PETRALEX S. DE R.L. (SITRAPETRALEX)	
Troon (Pinehurst or Augusta)	2014	Nicaragua	Direct	None	Worker from Troon	adidas' investigation found that workers were dismissed for trying to establish a union at the facility. The workers were reinstated. The factory management strengthened its training programs on freedom of association.
Gokaldas	2014	India	Direct	None	Fair Wear Foundation	Fair Wear Foundation notified the FLA of an incident that involved the death of a child at the child care facility at Gokaldas. An independent investigator conducted an assessment of the allegations and found that the child was in distress while at the childcare facility, was taken to a local healthcare facility that did not have the proper equipment, and then taken to a hospital, where the child was pronounced dead. Allegations of poisoning or injuries from the child care facility were ruled out; however, FLA found that the child care facility did not have a proper medical expertise to be in compliance with local law. adidas and Gokaldas immediately addressed the issues of ensuring certified medical staff

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						and services were available.
Troon (Pinehurst or Augusta)	2015	Nicaragua	Direct	None	Unidos en Victoria Union	The dismissed unionized workers and the dismissed pregnant worker were reinstated with back pay. adidas and the supplier committed to a remediation plan to update policies on dismissals and reinforce systems for reporting cases of harassment and abuse.
Pou Chen⁴	2015	China	Direct	New Balance, Nike, Under Armour	Pou Chen (FLA Participating Supplier)	In 2014, Pou Chen Group workers in China went on strike, protesting that Pou Chen was not making contributions to social insurance and housing benefits. Pou Chen began remediation in May 2014. FLA conducted a verification as a safeguard investigation in May 2015 to assess the implementation of the remediation plan at four Pou Chen facilities. FLA found that Pou

⁴ An FLA Participating Supplier

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						Chen was making accurate benefit payments to the benefits and provided retroactive contributions. Because Pou Chen is a Participating Supplier, FLA worked directly with Pou Chen, keeping the brands informed.
New Holland	2016	Nicaragua	Direct	Under Armour	adidas & Under Armour	A safeguard investigation of the dismissal of 5 unionized workers was conducted, and it was found that 2 out of the 5 dismissals did follow local law. These workers were reinstated and the supplier and adidas worked to improve the supplier's practices in freedom of association, terminations, human resources, and knowledge of local law the collective bargaining agreement.
Troon (Pinehurst or Augusta)	2016	Nicaragua	Direct	None	Carlos Fonseca Amador union	adidas investigated allegations of factory management favoring an established union over a union trying to gain recognition at Troon. adidas worked with the factory to improve its relations with the newly formed union. adidas investigated other allegations and worked with the factory to improve working conditions. Troon closed its operations in November of 2016; adidas and Troon ensured that all workers received the legally required benefits.

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Textiles Opico⁵	2017	El Salvador	Licensee	Dick's Sporting Goods (adidas licensee)	Sindicato de Trabajadoras, Trabajadores, Sastres, Costureras y Similares (SITRASACOSI)	After the dismissal of workers due to an increased minimum wage in El Salvador, Textiles Opico (TexOps) and SITRASACOSI agreed to reestablish a dialogue process under the direction of a third-party mediator. As part of the mediation process, TexOps' management and the union agreed to a formula for the reinstatement of production and construction workers who were dismissed in January 2017.
Triangle Apparel	2017	India	Direct	PUMA	Union	This Third Party Complaint has yet to be closed, and is still in process with the FLA. Once closed, the report will become public.

⁵ Accredited FLA Participating Supplier